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## U.S. Prepared to Send Forces to Escort PLO From Beirut

Assistance of 1,000 Armed Troops, in Multinational Mission, Awaits Formal Request by Lebanon

Compiled by Our Staff From Dispatches  
LOS ANGELES — President Reagan said Tuesday he "has agreed in principle to dispatch up to 1,000 U.S. combat troops to West Beirut for 30 days to evacuate Palestinian Liberation Organization guerrillas."

Israeli tanks and artillery units pounded West Beirut Tuesday, breaking the fifth cease-fire arranged by Philip C. Habib, the U.S. special envoy to the Middle East, after less than 24 hours.

Mr. Reagan made his statement to a group of local officials from 10 western states who had gathered to discuss his revised "Federalism" program. The decision had been revealed earlier by Larry A. Speakes, deputy White House press secretary.

"The situation is too sensitive for detailed discussion, but I am

reporting to you that this weekend, in discussions with Mr. Habib, the government of Lebanon told us that a multinational force might be essential for temporary peacekeeping in Beirut and informally proposed that the United States consider making a contribution to that force," he said.

"The Lebanese government has not made a formal proposal, but I have agreed in principle to contribute a small contingent of U.S. personnel, subject to certain conditions."

**Delicate Negotiations**

He said the United States has pledged to do "all it can to find a peaceful solution to the conflict and that Mr. Habib had been working tirelessly 'to bring peace to that troubled region.'"

He gave no further details and

said, "Obviously, there's much work still to be done. I can't overemphasize the delicacy of these negotiations."

In Cairo, Foreign Minister Kamal Hassan Ali told the official Middle East news agency that the PLO had agreed to leave West Beirut by sea to "avoid destroying the city and shedding more blood" and that France would help transport the PLO out of Beirut. But Claude Cheysson, external relations minister, said that the reports were untrue and that no firm plans had been made.

Yasser Arafat, the PLO chairman, spurned suggestions that the PLO be evacuated from Beirut under the protection of the U.S. 6th Fleet, but he did not reject the involvement of American troops in a multinational peacekeeping force

to disengage the Israeli and Palestinian armies.

In an interview with Thomas L. Friedman of The New York Times at a Beirut office of the PLO, Mr. Arafat said: "We are not in need of American help. The weapons and the 6th Fleet that helped kill my women and children cannot protect us. Definitely I won't accept it."

When asked if the PLO would accept American Marines being deployed in Beirut as part of a solution to the present crisis, Mr. Arafat said, "I am in favor of an international effort for disengagement" of Palestinian and Israeli troops around Beirut.

Mr. Arafat has insisted that an international force be deployed to separate the PLO and the Israelis before he will discuss the final de-

tails or implement any kind of PLO withdrawal from Lebanon.

Mr. Speakes, earlier Tuesday, said that the contribution of U.S. troops for the evacuation might also involve U.S. ships. He did not say which branches of the armed services the battalion would be drawn from, but the most likely source of troops was thought to be Marines with the U.S. 6th Fleet in the Mediterranean.

**Congressional Reaction**

He said some members of Congress had been briefed Tuesday morning after the news first broke in Jerusalem, by William F. Clark, the national security adviser, and members of his staff and State Department personnel. Congress is in a July 4 holiday recess.

Some lawmakers expressed concern. In a statement, Clement J.

Zablocki, Democrat of Wisconsin and House Foreign Affairs Committee chairman, said, "I have serious reservations. ... There are simply too many unanswered questions."

Howard H. Baker Jr., Senate Republican leader, speaking in Johnson City, Tenn., said he would not comment on the specific proposal, but added, "I think it is not wise to introduce American fighting men in the Mideast conflict."

Rep. G.V. Montgomery, Democrat of Mississippi, warned that Mr. Reagan should be "prepared for American casualties if U.S. soldiers are sent into Lebanon."

Israeli officials in Jerusalem said the United States had offered to send the 6th Fleet and a detachment of Marines to supervise the Palestinian withdrawal. Israel Ra-

dio said 1,600 U.S. Marines would take over positions abandoned by the guerrillas, presumably to ward off reprisal attacks on the Moslem population by Lebanese Christian militiamen.

The radio said the guerrillas would go to several countries, including Algeria, Iraq, Egypt and Syria. It said the guerrillas had refused to go to Libya, despite that country's fervent verbal support for the Palestinian cause.

On Tuesday, heavy fighting broke out between the Israeli armored units besieging West Beirut and the 6,000 guerrillas trapped inside. The fighting was concentrated around the Galilee Samaan crossing point that connects Christian East Beirut with the predominantly Moslem west.

It was impossible to determine

who started the shooting, but by late evening it was clear that the Israeli artillery entrenched in the hills overlooking West Beirut were pouring fire onto a string of Palestinian positions. The Palestinians responded with multiple rocket launchers.

The Israelis continued to block any food, water or fuel from entering West Beirut for the fourth consecutive day.

The State Department Tuesday urged Israel to lift the blockade of West Beirut to permit the transportation of relief supplies into the besieged quarter.

Meanwhile, Israeli authorities dissolved another elected Palestinian town council on the West Bank Tuesday, and Israeli troops used tear gas to disperse a student demonstration against the occupation of Lebanon.

### Israel Exhibits Town Once Held by PLO

By William Beaudin  
Washington Post Service

DAMOUR, Lebanon — The wall where the cross once hung is rocked by bullets. Below, from the altar, once stood, lies a pile of greasy engine casings and parts. Oil stains spot the floor of the church, which evidently had been turned into a garage and now stands empty and desolate like the rest of the town.

Next door, in a row of dimly lit stone chambers that once served as a monastery, metal tanks lie overturned amid piles of clothes, cooking utensils and various personal belongings. Palestinian Liberation Organization posters and slogans cover the walls.

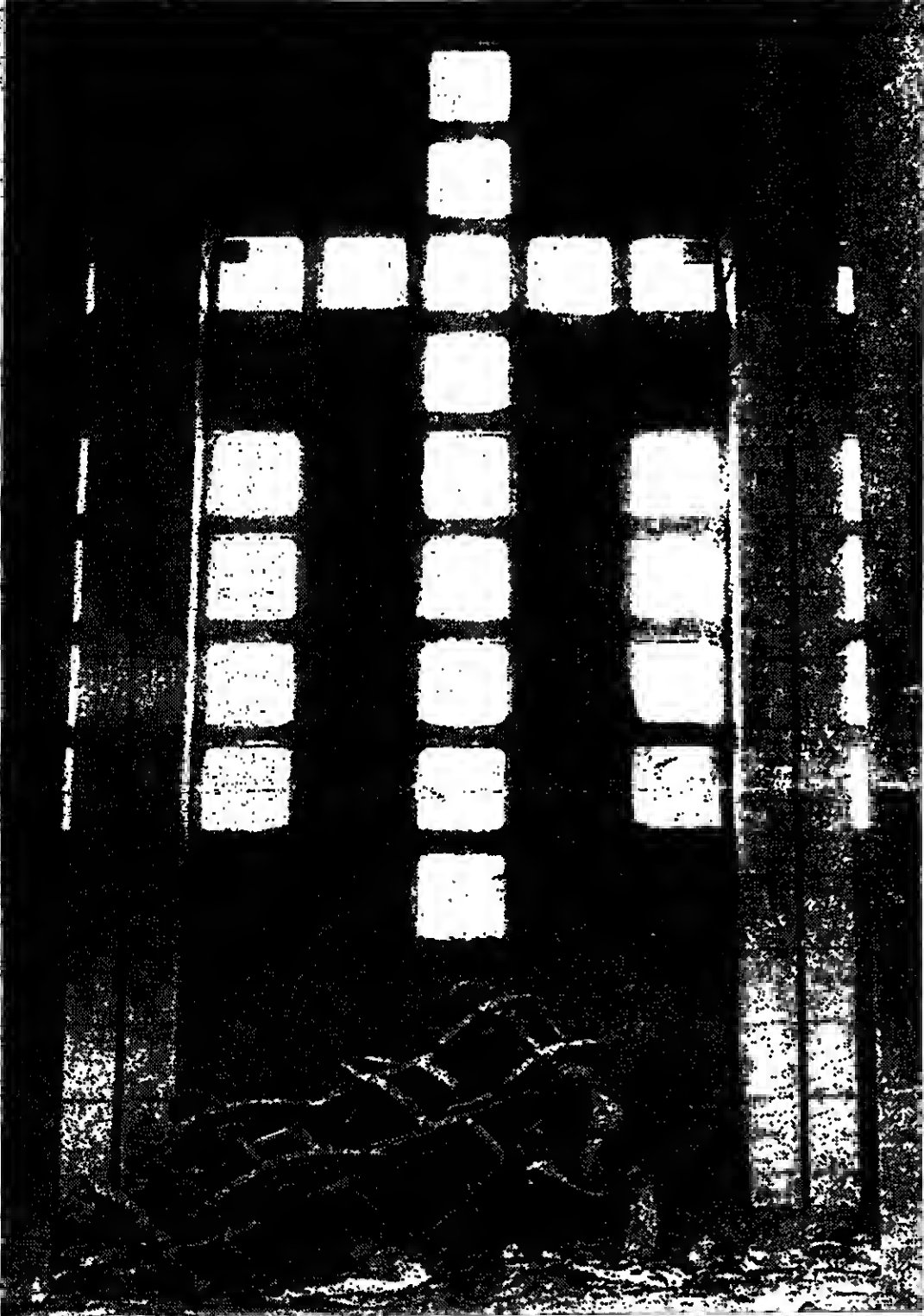
In another part of town, the St. Elias Church is in similar disarray. The now-departed Palestinians had apparently found a new use for this church as well: the pews inside have long since been removed, and a volleyball net stretches across the interior between two pillars.

This is the Damour area, heavily hit on display by the Israeli Army, which captured the PLO-held town 2 miles (19 kilometers) south of Beirut at the start of its invasion of Lebanon last month after pounding it relentlessly from land, sea and air.

Formerly inhabited by about 6,000 Lebanese, almost all of them Christians, Damour was overrun by Palestinian guerrillas during the 1975-76 Lebanese civil war. Its inhabitants were driven out, and the town was turned into a Palestinian military stronghold dominating the coastal road from southern Lebanon into Beirut.

**Organized Tour**

During a tour Friday organized by the Israeli Army press office, reporters were taken to see the churches that had been turned into Palestinian guerrilla installations, huge arms and ammunition depots in residential buildings, and a handful of Christian families who have returned to their former homes. Access to the town is not



The wreckage of a vehicle was found inside a church in the Lebanese town of Damour, which was recently occupied by Israeli forces. The church had been used as a camp by Palestinian guerrillas.

## Nuclear Freeze Issue Puzzles U.S. Politicians

Democrats Expected to Benefit, but Experts Can't Identify Likely Victors

By Adam Clymer  
New York Times Service

WASHINGTON — The nuclear freeze issue, as an influence on this year's elections, is a political enigma.

Most experts on both sides of the political aisle feel that the issue will matter in this year's congressional elections and that it will help Democrats more than Republicans because more Democrats favor a freeze. But they are hard put to identify races in which it seems to rate as a key issue.

Even after the Democrats attached themselves fairly tightly to the nuclear freeze issue at their Philadelphia mini-convention a week ago, defining its partisan impact remains uncertain.

The freeze issue caught politicians by surprise. Most are tentative in judging it. Matt Reese, a Democratic operative, said: "It's a strong issue whose birth was secret. I didn't see it coming. I'm not smart enough to know how to use it."

But there are firm opinions. Nancy Simon, the executive director of the National Republican Congressional Committee, thinks the issue can help candidates who support a freeze in states where the freeze itself is on the ballot. That list includes California, New Jersey, Rhode Island and Wisconsin. Up to six more, including New York and Michigan, may be added.

Peter D. Hart, a Democratic poll-taker, said he thought the issue would show "probably a greater impact in terms of turnout than anything else."

"I would not think it would be the major, overriding issue in many races," he said.

The probable impact of the issue is uncertain for several reasons. The terms used in discussing the freeze are technical. Polls indicate that the public is not all that certain on the question. A pro-freeze argument, therefore, is not all that hard to answer politically.

Rep. Guy Vander Jagt of Michigan, chairman of the Republican Congressional Committee, says the advice he offers Republicans is: "Treat it with great, great seriousness. You take the concern seriously."

Ann F. Lewis, the political director of the Democratic National Committee, agrees that the issue could be of only limited help to Democrats because, she said, "it should be possible for any Republican with common sense to come back with an arms-control position of his own."

Another factor is that while the Democrats may be committed to the freeze, as Sen. Edward M. Kennedy said to the dismay of the party's small crew of freeze oppo-

nents in Philadelphia, it is far less clear to the public where the Republicans and President Reagan stand.

The president's poll-taker, Richard B. Wirthlin, says he has found a sharp rise since April in the percentage of Americans who think that Mr. Reagan wants to reduce arms and a decline in the percentage who think the president wants to build as many bombs as he can. Mr. Reagan had been urged by advisers to begin speaking out on arms control.

There is one area in which almost everyone agrees that the issue is valuable to candidates: it is believed to stimulate volunteers. Mrs. Lewis of the Democratic staff tells of a Boston-area congressional candidate getting 14 volunteers from a high school after discussing the freeze there. She adds, "That's more high school volunteers than anyone is getting on any other issue."

In La Crosse, Wis., Rick Merrill, an aide to Paul Officer, a Democratic House candidate, said: "It's important to us as an organizing tool. This district runs 300 miles

up and down the Mississippi River, and that's a lot of territory to cover, so volunteers matter."

But farm conditions matter more in Wisconsin, just as layoffs at International Harvester and Caterpillar Tractor make more difference in the House race of another freeze advocate, Douglas Stephens, of Peoria, Ill.

At the moment, the freeze has an almost mythological quality, as one or another group of campaign watchers in Washington reports that it is catching fire for candidates in the hinterland. But when questioned, the candidates, such as Frances Farley in Salt Lake City or Frank McCloskey in Bloomington, Ind., report no smell of smoke.

Still, Election Day is four months away. Robert M. Teeter, who conducts polls for Rep. Vander Jagt's committee, said the subject had gone from zero to 5 percent to 10 percent as the problem voluntarily mentioned as "most important" in his polls in the last 60 days.

"It has all the symptoms of an issue that's beginning to come, even though you can't really hand out any data and say there it is," said Mr. Teeter, the president of Market Opinion Research of Detroit.

Rep. Vander Jagt said: "At the moment, it's not very important. It will be by November."

His expectation that the issue will count, no matter how difficult it is to measure today, is widely shared, though an occasional skeptic like Richard N. Bond, deputy chairman of the Republican National Committee, is willing to predict that it will not affect a single House race.

## OECD Predicts Short-Lived Recovery

By Carl Gewirtz  
International Herald Tribune

PARIS — The OECD Tuesday coupled a forecast of a modest recovery over the coming 18 months for the major industrialized nations with a set of unsettling predictions.

The semi-annual Economic Outlook stresses that the upturn will not have much staying power and warns that it contains the seeds of powerful international frictions. Especially noteworthy is the forecast for a mammoth increase in Japan's trade surplus.

The report is the Organization for Economic Cooperation and Development's assessment of where the major economies are headed on the basis of policies being pursued by the member countries. It makes no judgment on the wisdom of these policies. But the forecasts speak for themselves:

- Interest rates are not projected to fall substantially. "This is likely to have adverse effects on demand, particularly investment," the report states.
- Unemployment, already run-

ning at postwar highs in many countries, is going to continue to rise. A projected 31.75 million people will be without work next year, up from a forecast of 30 million this year and 25.5 million last year. This means unemployment rates of 12.5 percent in Britain compared with the current estimated 11.75 percent, and rates of 10 percent for the United States, Canada and Italy.

The youth unemployment rate is forecast to hit 17.5 percent this year and 18.25 percent next year in the seven major industrialized countries. It may exceed 19 percent by the end of next year for the 24-nation OECD area as a whole, the report says.

**Japan's Trade Surplus**

For Japan, whose flood of exports are already fueling protectionist calls in Europe and the United States, the OECD forecasts a near doubling of the trade surplus to \$37.75 billion next year from the \$20 billion last year. This year's surplus is forecast at \$22 billion.

The current account, which

many economists consider a more meaningful measure because it includes not only merchandise trade but also "invisibles" such as tourist spending, payments for foreign services and private and official transfer payments, is projected at \$20.75 billion next year, up from an expected \$6.5 billion this year and \$4.7 billion last year.

Turning to individual countries, the report warns that the fiscal assumptions of U.S. policy-makers "could prove inaccurate as to the timing, magnitude and composition." The OECD's detailed report on the U.S. economy earlier this week made clear that differences between the monetarist, supply-side policies of Washington and the OECD's more Keynesian view of the world have "not allowed a merging of views on the underlying economic phenomena and on policy recommendations."

In addition, the report states that "a major adjustment" in the corporate sector, that is massive bankruptcies, could result from the divergence of policies among governments at a time when the cor-

porate sector has been sapped by recession.

As for West Germany, the strongest economy in the EEC, the OECD fears that the 3.25-percent growth forecast for next year may be overly optimistic. It says that while nominal interest rates may ease, real long-term rates may remain historically high at 4 percent to 5 percent and that foreign demand may be weaker than assumed.

Overall, the OECD sees no sign of a pick-up in investment spending. It says the recovery will be fed by increased consumer spending (real incomes are growing as inflation declines) and by companies' restocking inventories that were run down during the recession. But for the recovery to be self-sustaining, the report says, there must be increase in corporate spending on new plant and equipment.

Hinting at the secretariat's dissatisfaction with the outlook and policy differences not only with the United States but also West Germany and Japan — which at the May ministerial meeting reject-

### Aeroflot Jet Crashes; Few Details Given

The Associated Press

MOSCOW — An Aeroflot aircraft on route to western Africa crashed on takeoff early Tuesday near Moscow's Sheremetyevo Airport, Tass reported.

There were victims, Tass said, but Soviet officials refused to give details about the number of fatalities or the nationalities. Two Western airline sources said they believed that the plane was carrying about 90 passengers. One source said there were no survivors; another said there were rumors that a woman survived.

Flight 411 was en route from Moscow to Dakar, Senegal and Freetown, Sierra Leone, an airport spokesman said.

An official at the Sierra Leone Embassy in Moscow said that about 22 persons from that country were aboard the plane, including a diplomat, representatives of a youth group and students. All were believed killed, the official said.

"The Soviet Foreign Ministry and the Ministry of Civil Aviation, when contacted by us, did not give us any details, but promised to give us more information tomorrow," the official said Tuesday.

An official at the Senegalese Embassy said he had no details, but he said that embassy staff members were trying to get details from Soviet authorities.

According to Aeroflot, the takeoff was scheduled for 12:10 a.m. local time. A Western source said the crash occurred about six miles (nine kilometers) from the airport, and that one of the plane's four engines was ablaze.

The Ministry of Civil Aviation said that a special commission was investigating the crash.

"The Ministry of Civil Aviation expresses deep condolences to the relatives of the victims of the crash," Tass said.

**Type of Plane Unclear**

Aeroflot's official schedule lists the aircraft for the flight as an Il-yushin-62, but it was not known whether it was the 186-passenger version or the 168-passenger version.

Soviet authorities have generally released information about airline crashes when foreigners were among the passengers. The relatively quick announcement of the Flight 411 crash, about 16 hours after it happened, suggested not only that foreigners were involved but also that at least some members of the Soviet public had seen the crash or its aftermath.

Reporters who visited the airport Tuesday evening said that planes were taking off and landing as usual in warm, hazy weather, and that the crash site was not visible. The area around Sheremetyevo Airport is closed to foreigners without special permission.

## Argentina Wants Falklands Talks Before Formal Halt to Hostilities

By Jackson Diehl  
Washington Post Service

BUENOS AIRES — Argentina's new army government will continue to insist that Britain agree to negotiate over the Falkland Islands before accepting a permanent cessation of hostilities in the South Atlantic, officials at the Argentine Foreign Ministry say.

The diplomatic stance was indicated Monday by newly inaugurated Foreign Minister Juan Aguirre Lanari, who said a de facto cessation "of hostilities exists for Argentina in the South Atlantic" but that Argentina would continue seeking to resolve the conflict on the basis of United Nations resolutions that call for talks on Argentina's claim to the Falklands.

Government sources later confirmed that Mr. Aguirre Lanari had not altered the position adopted by former Foreign Minister Nicanor Costa Mendez that Argentina could not agree to a final end to the hostilities with Britain — thus losing its last measure of diplomatic leverage — without receiving a promise of negotiations in return.

Mr. Aguirre Lanari's statement in a press conference echoed a note delivered by Argentina to the United Nations more than two weeks ago, before the installation of the new army government of President Reynaldo Benito Bignone. That statement said a de facto cessation of hostilities existed but that it would be "precarious"

until British troops were withdrawn and negotiations begun.

Britain has not accepted formal talks with Argentina on the Falklands and has refused to withdraw its forces. Instead, Britain has called on Argentina to indicate it will not continue military action and has said several hundred Argentine soldiers still being held by British forces will not be released until the cessation of hostilities is agreed upon.

Government officials said that Argentina was privately seeking to arrange a settlement with Britain, but that the Foreign Ministry did not expect a quick conclusion to the issue. "What's the hurry?" one ranking official said. "We're not the ones holding the hostages."

Mr. Aguirre Lanari also said that U.S.-Argentine relations had deteriorated and that future ties between the two nations depended on concrete acts. "The time for words has passed," he said.

**Thatcher Gives Inquiry Details**

LONDON (AP) — Prime Minister Margaret Thatcher announced details Tuesday of a gov-

ernment inquiry into why Britain failed to foresee and prevent Argentina's invasion.

Lord Franks, 77, a Liberal Party member who was ambassador to Washington from 1948 to 1952, will head the panel of Privy Counsellors who will conduct the inquiry, Mrs. Thatcher announced.

She said the other members will include representatives of the two main political parties, her own ruling Conservatives and the Labor Party, chosen in consultation with Labor leader Michael Foot.

The prime minister appeared to have compromised over the inquiry's terms of reference. She had wanted it to examine in detail the actions of four previous governments, going back to 1965. But after criticism that she was seeking to divert attention from the failings of her own administration, she announced Tuesday that the investigation would merely "take account" of relevant factors from past years.

Meanwhile, it was reported that a group of 600 Argentine prisoners has left the Falkland Islands, and British newspapers said they may be headed for Britain to stay until Argentina agrees to end hostilities in the South Atlantic.

The British Defense Ministry said the captives' departure on Monday leaves 35 Argentine prisoners on the islands. The ministry said the 35 were helping clear mine fields laid by the Argentines during their 74-day occupation.

## 4 Get Death Penalty in Seychelles



Compiled by Our Staff From Dispatches  
VICTORIA, Seychelles — Four foreigners were sentenced to death Tuesday after being found guilty of treason for their role in a coup attempt by a band of mercenaries last November. A fifth defendant who claimed to be a South African spy was sentenced to 20 years in prison.

President Albert René is widely expected to commute the death sentences.

The five defendants, plus a sixth man who was convicted of illegally importing arms, were accused of being the advance party for the coup plot that failed when the mercenaries were discovered as they arrived at the main airport of this nation of Indian Ocean islands.

The main band of mercenaries, led by former Congo mercenary leader Michael Hoare, fled the island in a hijacked Air India jet. Mr. Hoare and 42 other mercenaries who escaped are on trial in Pietermaritzburg, South Africa, on hijacking charges.

There was speculation in the South African press that Martin Dolinchek, who claimed to be an

agent of the South African National Intelligence Service, had made some kind of deal with the Seychelles government. Mr. Dolinchek tried to plead guilty, but the court insisted that he plead not guilty and he was convicted after a trial in which he blamed South Africa for fomenting unrest in the region.

The four sentenced to death for treason were Frank Brooks and Roger England, both Zimbabweans, Jeremiah Puren, a South African, and Bernard Carey, a Briton. The defendants, who had argued that they were not citizens of the Seychelles and thus could not be tried for treason, were given 14 days to appeal.

**Spirit of Contrition**

Justice Earle Scatton said that Mr. Dolinchek was an accomplice in the coup attempt, not a direct participant, and that he had shown a spirit of contrition while conducting his own defense.

Another mercenary, Robert Sims, a South African, was due to be sentenced Tuesday on firearms offenses to which he pleaded guilty. A charge of treason against him was dropped when he admitted the arms charges.

### INSIDE

■ They were outsiders who finally became insiders, but many of the conservative crusaders who came into office with President Reagan have grown frustrated and are resigning in increasing numbers. "The crusade is over," said one. Page 3.

■ In politically fractious San Francisco, there ordinarily would be little to unite members of the National Rifle Association, the radical White Panther Party and the newly formed Gays for Guns. Yet those and other diverse groups all have joined in opposing Mayor Dianne Feinstein's precedent-setting plan to ban the possession and sale of handguns — a move she calls "domestic disarmament" in the wake of a spiraling homicide rate. Page 5.

■ A special supplement reports on Bahrain. Page 9S.



# Cairo's Jews Remain Undaunted By Public Condemnation of Israel

By Eric Pace  
New York Times Service

CAIRO — From windows overlooking the city, Jews in the latest news about the Lebanon crisis. On the sun-scorched sidewalks, news vendors hawk newspapers full of denunciations of Israel.

But behind its dusty stone wall and its palm-studded garden, the headquarters of Cairo's Jewish community is an oasis of tranquility.

"There is no trouble for us now because of Lebanon," the community's acting head, Youssef Dana, said last week. And one of its board members, Murad Gabai, said: "We have no trouble at all. The Moslem people are very polite."

Though the attitudes of many Egyptians toward Israel have soured since it launched its Lebanon offensive, leaders of the quiet,

mostly elderly Jewish community here reported that they had experienced no trouble connected with the crisis. They said Cairo's Jewish sites, which include 15 synagogues, had not been vandalized.

"We are completely friendly with the authorities here," said Mr. Dana, 64, a tax lawyer who has three of his four children at school in Israel. His other child, Ester, 7, is the youngest of the 150-member community, which traces its history back to Moses and Maimonides.

Mr. Dana said Lebanon "is not something that concerns us at all." Other Jews here said the Egyptian government had not felt any need to increase the usual guard of riot police at such Jewish sites as the great Shaar ha-Shamayim Synagogue, which has been refurbished.

That synagogue, whose Hebrew name means "Gate of Heaven," is the only one in Cairo where worship is held — on Fridays and Sat-

urdays — and Mr. Gabai, 75, a retired government official, leads the prayers because there is no rabbi in Cairo. In 1980 and 1981 the Israeli government sent a rabbi to the synagogue to hold Sephardic services during Judaism's high holy days.

The absence of a permanent rabbi is painful to the Jewish leaders, who recall proudly that there have been about 50 grand rabbis since the time of Maimonides, the great Jewish philosopher of 12th-century Cairo.

They still remember the strong-willed Haim Nahum, who became grand rabbi in 1924 and died in 1960. Rabbi Haim Douek, said in 1963, when only about 400 Ashkenazic and Sephardic Jews remained in Cairo, "I hope that in the future, the community will become prosperous again." It had had 80,000 members 20 years earlier.

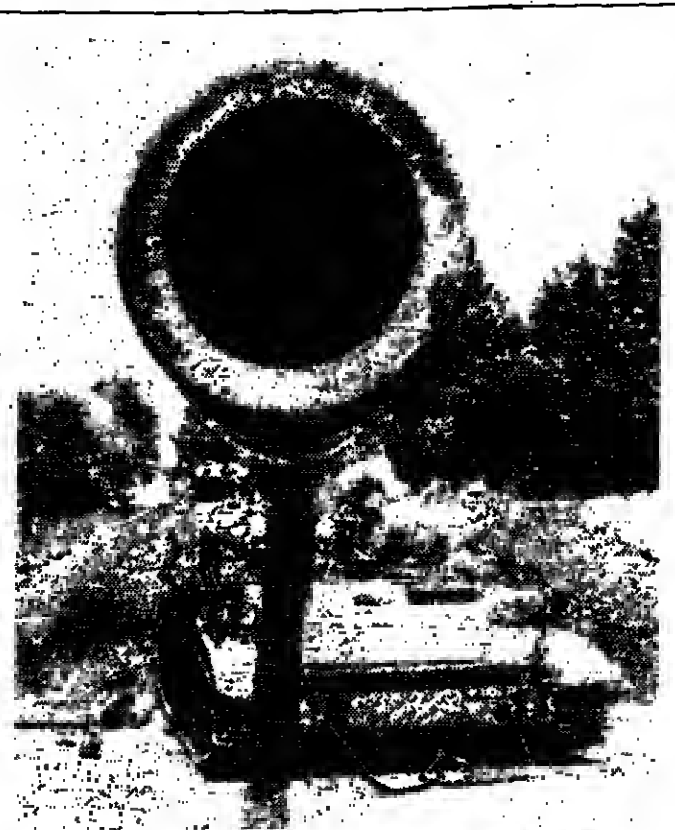
But the rabbi, like hundreds of other Jews, left Egypt after many years when he was imprisoned by the government of President Gamal Abdel Nasser during the 1967 Middle East war and afterward. Rabbi Douek died in New York.

The rabbi's wish has not come true, though Mr. Dana said the community had been well treated under President Anwar Sadat and his successor, Hosni Mubarak. "Even during the war of 1973," he said, "we had no trouble here at all."

But he reported that medical expenditures and other outlays for poor Jews here were a burden on the finances of the organization and that it had had to sell six synagogues in Cairo in the past 10 years to generate revenue to meet operating expenses.

All of Egypt's Jews live in Cairo, he said, except for 100 in Alexandria, where, he said, they "are in a better situation — they have some rich people there." In addition, there is a tiny group of Egyptian Karaites, members of a fundamentalist Jewish sect who did not recognize Rabbi Douek's authority.

Almost all of Cairo's Jews are over 70 and most are women, said Elie Douek, the secretary of the community.



OUTSIDE BEIRUT — A 175-millimeter mobile howitzer of the Israeli Army stood aimed at West Beirut, shortly before a fifth cease-fire settled on the city. The cease-fire was broken Tuesday, barely 24 hours after it had begun.

## Poland Sets Program to Boost Wages

Effort Is Seen to Ease 300%-400% Price Rise

The Associated Press

WARSAW — Amid skyrocketing prices for food and other consumer goods, Poland on Tuesday announced a plan to boost wages and provide Western-style incentives to workers to increase productivity.

The plan, reported by the Polish press agency PAP, appears aimed at easing the 300-percent to 400-percent price increases of February, enacted after martial law was declared Dec. 13, 1981.

Bonus Payments

In its provision to "make it possible to give better wages to the best workers currently facing a wage limit," the plan also appears aimed at boosting production, which has continued to fall despite the strict discipline of martial law.

The decision to provide such incentives runs counter to the philosophy of the now-suspended Solidarity union that fought against and finally halted bonus payments and provisions for miners during its heyday last year.

PAP said the plan, approved July 1 by the Council of Ministers, the Cabinet of the country's military ruler, Gen. Wojciech Jaruzelski, allows factory and office managers to set pay on their own rather than by centrally approved guidelines.

Its only restriction is setting pay increases at a low of 2,800 zlotys (\$35) a month, and 12,000 zlotys (\$150) a month. The current monthly average wage is about 8,000 zlotys.

The announcement of pay increases and incentives came amid a two-day session of parliament in which deputies criticized waste and inefficiency among workers.

One deputy, Wladyslaw Cabaj, said the need to improve efficiency in agriculture and reduce loss and waste was all the more urgent since the West had declared a "food war on Poland."

Mr. Cabaj charged in his speech that "food had become a political weapon," an apparent reference to U.S. economic sanctions that have halted the sale of chicken feed to Poland and affected its egg and chicken industry.

At the same time, he said, Poles themselves were wreaking annual production losses in their home land due to poor work practices.

Polish officials apparently hope improved wages and incentives will prevent waste and improve quality and production, some observers said.

Western Bankers Meet

VIENNA (AP) — Representatives of 19 Western banks met Tuesday to discuss proposals for rescheduling Poland's 1982 commercial debt, Vienna banking sources said.

The bankers are slated to meet with officials from Bank Handlowy, Poland's foreign trade bank, on Wednesday. The meeting will be the first at which Western bankers and Handlowy officials are to discuss Poland's 1982 debts.

Pope, Prelates Confer

VATICAN CITY (AP) — Pope John Paul II and Polish Roman Catholic prelates held private talks Tuesday on a possible papal visit to Poland in August, the Vatican announced.

However, Vatican spokesmen were tight-lipped about the session. The only thing they would say was that John Paul had met for an hour with Archbishop Jozef Glemp, primate of the Polish church, and five other Polish bishops.

95 Guatemala Rebels Are Reported Killed

GUATEMALA CITY — Guatemala announced that its military forces killed 95 guerrillas in the first five days of a state of siege proclaimed last week.

An army communiqué Monday night said 50 insurgents were killed when government troops overran a guerrilla camp 120 miles (192 kilometers) northwest of the capital. No government troops were killed, the communiqué said.

## WORLD BRIEFS

### Haig Formally Gives Up Cabinet Post

WASHINGTON — Alexander M. Haig Jr. has formally stepped down as secretary of state and has delegated responsibility for a transition period to Deputy Secretary of State Walter J. Stoessel Jr., an administration spokesman said Tuesday.

The spokesman indicated that Mr. Haig would not be coming back to the State Department and that he turned over all responsibilities, including the Middle East negotiations, on Monday.

Mr. Haig's confirmation hearing is scheduled to begin on July 13, and it is anticipated that he will be sworn in within a week after that. Mr. Haig resigned June 23, citing differences with the White House in the conduct of foreign policy.

### 2 Cuban Diplomats Expelled by U.S.

WASHINGTON — The State Department announced Tuesday the expulsion of two Cuban diplomats, including Cuba's chief intelligence operative in New York, for purchasing high-technology electronic equipment.

A department spokesman, Dean Fischer, said the expulsion was triggered Thursday when federal agents in Orlando, Fla., seized a television-monitoring system that had been purchased by the Cubans by mail from a U.S. company.

The Cubans, both attached to that country's United Nations mission, were identified as Mario Monzon Barata and José Rodríguez Rodríguez. They were informed by the U.S. mission to the United Nations of the expulsion order Sunday and were asked to leave the country immediately. Mr. Fischer said Mr. Monzon was Cuba's chief intelligence operative in New York.

### Soviet Warning on Pipeline Reported

MOSCOW — Soviet officials have told Western businessmen to fear ways of overcoming sanctions imposed by Washington last month or pipeline technology or face stiff financial penalties for noncompliance, commercial sources said Tuesday.

Senior Western businessmen involved in the controversial East-West gas pipeline have been holding urgent talks in Moscow over the past week on U.S. efforts to block the project, the sources said.

President Reagan announced last month that he was extending sanctions on the supply of technical equipment for the line to cover European subsidiaries of U.S. companies as well as equipment made by Europe firms under license.

### Vatican Banker Reported on Way Out

ROME — Pope John Paul II may remove Archbishop Paul Marchetti, who is an American, as head of the Vatican's bank to insulate the Roman Catholic Church from a financial scandal involving a fugitive banker found dead in London, Italian news reports said Tuesday.

The leftist daily La Repubblica speculated about the possibility of removal. The Italian press agency AGI said some authoritative cardinals had demanded an investigation in an effort to protect the image and credibility of the Vatican.

Italy's central bank has asked Milan's Banco Ambrosiano, of which the Vatican's bank owns a small percentage, to explain \$1.4 billion in loans to three of the bank's Latin American subsidiaries, allegedly on the strength of a recommendation by Vatican bankers.

### Defiance of U.K. Union Said to Grow

LONDON — British Rail said more locomotive engineers defied their union's strike order Tuesday and returned to work, and the union accused the state-owned railroad of using "blackmail and strong-arm tactics" to force the men to come back.

A British Rail spokesman said 300 engineers crossed picket lines around the country, which was 75 more than Monday, and that more than 1,100 were expected by nightfall. He said 2,500 of the 15,000 usual trains, which is twice as many as the day before, would run.

British Rail repeated its threat to fire strikers and said it could not guarantee wage payments if the strike over the introduction of flexible working hours to replace a fixed 8-hour day lasted for more than seven days.

### Ecevit Sentenced by Court in Turkey

ANKARA — Former Turkish Premier Bulent Ecevit was sentenced Tuesday to 2 months and 27 days in prison on charges of breaking a military ban on political statements.

The 56-year-old former chairman of the disbanded Republican People's Party was allowed to go free pending ratification of the sentence by Ankara's Military Law Command, officials said.

Mr. Ecevit served 53 days earlier this year for a similar defiance of the military ban on political activities last year. In his defense Tuesday, Mr. Ecevit criticized the military government for its performance after the September, 1980, coup that ended civilian rule. "I am the only politician who is tried or sentenced for having expressed his views on the past or future political structure of Turkey," Mr. Ecevit said.

Compiled From Agency Dispatches

## OECD Sees Short Recovery, Issues Unsettling Forecast

(Continued from Page 1)

ed suggestions that they take measures to buttress domestic demand — the report states:

"The correct identification and rectification of these problems, within an internationally coherent framework, remains the demanding task facing economic policymakers in the OECD world today."

Looking outside the OECD area, the report notes that surplus of the member nations of the Organization of Petroleum Exporting Countries, which hit \$113 billion in 1980 and fell to \$63 billion last year, is expected to tumble to about \$3 billion this year and then rise modestly to about \$10 billion next year.

As a result, the report says, a major export market for OECD countries will be shrinking.

The OECD data for 1981 shows that the U.S. share of the OPEC market has stabilized at 18 percent after hitting a high of 23 percent in the early 1970s, and that Japan retains the largest single share of the market, accounting for 19.4 percent of OPEC imports. In turn, these now account for 15 percent of total Japanese exports.

Turkey's exports to OPEC increased 340 percent last year, accounting for a third of its total exports. The sales, however, amounted to only 1.3 percent of OPEC's total imports at \$1.5 billion.

The OECD sees the newly industrializing group of countries (Brazil, South Korea, Hong Kong, Singapore and Taiwan) taking more imports, an increase of 5 percent to 7 percent, following an estimated 10-percent pickup of their own exports. Overall imports from non-OECD countries are forecast to rise 7 percent next year after declining a projected 14 percent this year.

The Kwangju fire caused little damage and no casualties, but one South Korean student was killed and three people were injured in the Pusan fire. Kwangju is a provincial capital south of Seoul where a nine-day revolt against the government took place in May, 1980. At least 189 people were killed during the insurrection.

Mr. Chung told the Seoul District Criminal Court, where he and three other defendants stood trial, that he set the fire at the Kwangju center to show his dissatisfaction with U.S. policies in South Korea. Two of the other defendants received one-year suspended jail sentences for harboring Mr. Chung.

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WEDNESDAY, JULY 7, 1982

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## Conservative Crusaders Quit Reagan Administration

Outsiders Who Became Insiders Grow Frustrated, Leave in Increasing Numbers

By David Hoffman

WASHINGTON — They were outsiders who finally became insiders, but many of the conservative crusaders who came into office with President Reagan have grown frustrated and are resigning in increasing numbers.

"The crusade is over," said one administration official who has returned to private business.

Norman R. Ture, one of the leading supply-side advocates at the Treasury Department, left last week for the Heritage Foundation, the conservative think tank. Another supply-side advocate, Paul Craig Roberts, has left Treasury for the Georgetown University Center for Strategic and International Studies.

Martin Anderson left the White House months ago to return to the Hoover Institution. Others are finding the conservatives' compromises of government work not worth the trouble, still others are staying on despite frustrations.

"They came to government with hopes that the Reagan years would be a chance to get their conservative, free-market, supply-side, anti-Soviet convictions translated into national policy. Coming mostly from academia and think tanks, where they had been on the outside for years, they found that being on the inside was both exhilarating and exasperating."

"This administration has many, many more of these kinds of people," said Willa Johnson, a senior vice president of the Heritage Foundation who spent six months in the White House personnel office. "They are convinced their ideas will work, but they're not used to thinking in the political terms that an administration has to look at. They become impatient."

One of those recently caught up in the collision between conservative theory and practical politics is E.S. Savas, a Columbia University professor who has built his career around the idea that private enterprise should receive troubled U.S. cities.

When he joined the Reagan administration as assistant secretary of Housing and Urban Development, Mr. Savas helped write this theme into the draft of the administration's first statement on national urban policy. The document concluded that cities had been weakened by federal aid and their future lay in "greater reliance on the free market."

But when the draft policy statement became public, touching off a furor among the nation's big city mayors, Mr. Savas was suddenly out in the cold.

White House officials announced that the policy had been sent back to the drawing board for more research. Secretary of Housing and Urban Development Samuel R. Pierce Jr. promised the mayors that it was only a draft and would "remain a draft."

The episode offered a glimpse into the ideological conflict that simmers between the administration's more pragmatic side and the conservatives who came to government determined to carry out a revolution from within.

This struggle for the administration's soul predates Inauguration Day, but lately some conservatives have decided to carry on the fight as outsiders.

Typical of them is Steve Hanke, a professor of applied economics at Johns Hopkins University in Baltimore, who took a leave of absence in June, 1981, to serve as a senior staff economist at the president's Council of Economic Advisors.

"Excellent Blueprint"

"What attracted me was that the president had an excellent blueprint," said Mr. Hanke, who was enthusiastic at first. "Those first few months it was a hard charge — and everyone was on the same wavelength."

But the euphoria turned to doubt, Mr. Hanke said he felt that the administration did not carry its economic revolution far enough in cutting taxes and government spending.

He said he was discouraged when his free enterprise ideas for helping the timber industry with federal timber sales did not get off the ground. "There's a large gap between the rhetoric and the

reality," he said. "Now, we're back to business as usual."

Mr. Hanke resigned and returned to Johns Hopkins with the feeling that "there are a lot of Republicans in Washington, but not a lot of Reaganites."

Joe Churba puts it another way: "Reagan without Reaganism." Mr. Churba wrote background material on the Middle East for Mr. Reagan, the presidential candidate in 1980, and later went to the Arms Control and Disarmament Agency.

A Hard-Line View

Mr. Churba takes a hard-line view of the Soviet Union and said he went into the administration with the conviction that "arms control in itself" should "not be the centerpiece of Soviet-American relations."

But he became gradually disillusioned, he said, because, for one thing, "arms control became the administration's panic reaction to the nuclear freeze movement."

Mr. Churba resigned May 7 to return to the Center for National Security, a hawkish think tank here. He has no regrets about leaving the government: "Outside is the only place to be."

When Paul Craig Roberts and others began popularizing the idea of supply-side tax cuts in 1975, "we were a minority within a minority," he recalled.

As assistant treasury secretary for economic policy, Mr. Roberts was a principal architect of the supply-side tax cuts Mr. Reagan won from Congress last year.

Mr. Roberts said he expected that the revolutionary change he wanted would have to be won very largely — or not at all. "You have to get your change up front, right away, before the PR people take over," he said. "And that's what we did."

But he grew angry and frustrated when many advisers urged the president later to raise new taxes. "I think the policy is in the process of being unraveled primarily by Republicans," he said.

Mr. Ture, the other supply-side aide at Treasury who was outspoken against new taxes, has said he



Martin Anderson

is leaving government because he needs to earn more money.

Mr. Anderson, who was Mr. Reagan's domestic affairs adviser before leaving the White House to write a book, said the attraction of being an insider dimmed after a year.

Just as the conservatives are drifting away from the Reagan administration, many liberals and consumer activists were dissatisfied when President Jimmy Carter was in the White House.

## Salvadoran Rebels Say Honduran Incursion May Widen Conflict

By Juan N. Vasquez

Los Angeles Times Service

MEXICO CITY — Representatives of the Salvadoran guerrilla movement said the Honduran Army's reported incursion into El Salvador threatens to widen that country's civil war into a regional conflict.

Reports during the weekend said 1,000 to 1,500 Honduran soldiers had entered Salvadoran territory to help Salvadoran government forces fight insurgents.

"This threatens the peace of all of Central America," said Eduardo Solorzano, 32. Mr. Solorzano describes himself as the No. 2 leader of the Armed Forces of National Resistance, one of El Salvador's five insurgent groups.

"Won't Hesitate to Fight"

He said the rebels did not want to fight the Hondurans but that "we won't hesitate to fight them on their soil if that's what they want."

Mr. Solorzano was interviewed with two other rebels — Misael Gallardo of the Armed Forces of National Resistance and Napoleón Rodríguez Ruiz, a member of the Revolutionary Democratic Front. Both organizations have offices in Mexico City.

Mr. Solorzano, who said he received a medical degree from El Salvador's National University before joining the guerrillas, said Honduran troops had entered El Salvador before.

"But in those cases, they crossed the border and acted as a stationary force, trying to cut off our retreat," he said. "This time, they were actively seeking to engage in combat and they succeeded. We inflicted casualties on them."

Mr. Solorzano and Mr. Gallardo

claimed that the Salvadoran Army suffered 550 casualties in Morazan province last month. The Salvadoran Army does not release casualty figures, but its commanders have acknowledged that casualties were heavy.

The Salvadorans said they took 45 prisoners, including El Salvador's vice minister of defense, Col. Francisco Castillo. They said they captured 143 semiautomatic weapons that government troops left behind.

Mr. Solorzano said the losses showed that the government could not win militarily.

"We do not propose to win the war solely by military means either," Mr. Solorzano said.

"July is a very important month for us," he said, referring to a vote scheduled in the U.S. Congress this month on assistance to El Salvador.

Troops Begin Pullout

SAN SALVADOR (AP) — Troops began pulling out of northeastern Morazan province Monday after battling guerrillas for a month, an army spokesman said. A rebel radio broadcast claimed victory for the insurgents.

An army spokesman, Col. Alfonso Eusebio Cotto, refused comment on unofficial reports that troops from neighboring Honduras had crossed the border and fought Salvadoran guerrillas.

16 Die in Honduras

TEGUCIGALPA, Honduras (AP) — Six persons reportedly were killed in bombings by guerrillas Sunday at two power plants. The explosions Sunday night killed six workers at one of the power stations. Hospital officials said the explosions resulted in deaths of 10 hospital patients in surgery or under intensive treatment when a citywide blackout started.

## China Is Seeking Ties With Angola

Reuters

PEKING — China said Tuesday it was seeking normal diplomatic relations with Angola, seven years after the former Portuguese colony became independent under a Soviet-backed government.

The magazine Peking Review said China has had unofficial contacts with Angola and had suggested that the two countries establish diplomatic relations.

In January, 1979, Angola said it had accepted a request from China for talks on establishing diplomatic relations, but no progress was made. China has denounced the presence of about 7,000 Cuban troops in Angola, calling them lackeys of Moscow.

French-Portuguese Accord

Reuters

LISBON — France and Portugal will establish a commission to draw up an agreement on technological cooperation in the arms industry, the Portuguese defense minister, Freitas Do Amaral, said Tuesday.

## Aborigines See Brisbane Commonwealth Games as Forum for Protest

By Pamela G. Hollie

New York Times Service

CANBERRA, Australia — Few in number, patronized where they are not openly discriminated against, Australia's "invisible people," the aborigines, have put this country's federal and state governments on notice that they will be invisible no more.

In September, at one of the major international athletic events of the year, the Commonwealth Games, the aborigines intend to make their stand. Plans for demonstrations in the host city, Brisbane, are being drawn up.

Representatives of the National Aborigines Conference have been meeting with African governments, urging them to boycott the competition. They have reported "favorable responses" to their cause, though no firm commitments to a boycott.

The delegation, whose legal adviser is Gough Whitlam, a former Australian prime minister, was due in Geneva this week to

meet with United Nations committees on human rights and minority affairs and to engage the attention of the international community.

"Brisbane may become Australia's battle of Wounded Knee," said Charles Perkins, chairman of the Aboriginal Development Commission, an aborigine agency that buys land for the people. He was referring to a conflict in American history between white settlers and Indians living in the Dakota Territories.

There is hope that the Commonwealth Games will be the scene of peaceful protest, not conflict. But there can be little guarantee, for in choosing the Games as a forum, the aborigines have carried their fight into what might be considered enemy territory. Brisbane is on the coast of Queensland state, which has continually defied federal anti-discrimination laws by passing state laws to the contrary.

At the heart of the aborigines' rights movement is land. The abo-

rigines want to get back the land taken from them by nonaboriginal settlers, and they want their tenure on land set aside for them by federal administrative action guaranteed by law.

A recent study by researchers at the Australian National University in Canberra pointed up the plight of aborigines. It found that only 10 percent of aborigines in New South Wales, where the national capital is located, live beyond age 49. That is about 20 years short of the life expectancy for nonaboriginal Australians.

Fifty-three percent are unemployed; the average household income, including social security, is less than \$225 a year; 75 percent of those surveyed owned less than \$115 in personal property. The statistics reflect the general status of Australia's estimated 180,000 aborigines.

But land also figures in aboriginal survival in a way few nonaborigines comprehend. "Land is not property to these people," said Dr.

Anwar Barkat, director of the World Council of Churches program to combat racism, which is monitoring the Australian problem. "It is like their skin. To be separated from it, particularly from the sacred places or 'dreaming lands,' is to sicken and die."

To outsiders, the proposition of

### France Will Circulate 200-Franc Bank Note

The Associated Press

PARIS — A 200-franc note (worth about \$29) will be put into circulation Wednesday, the French central bank has announced.

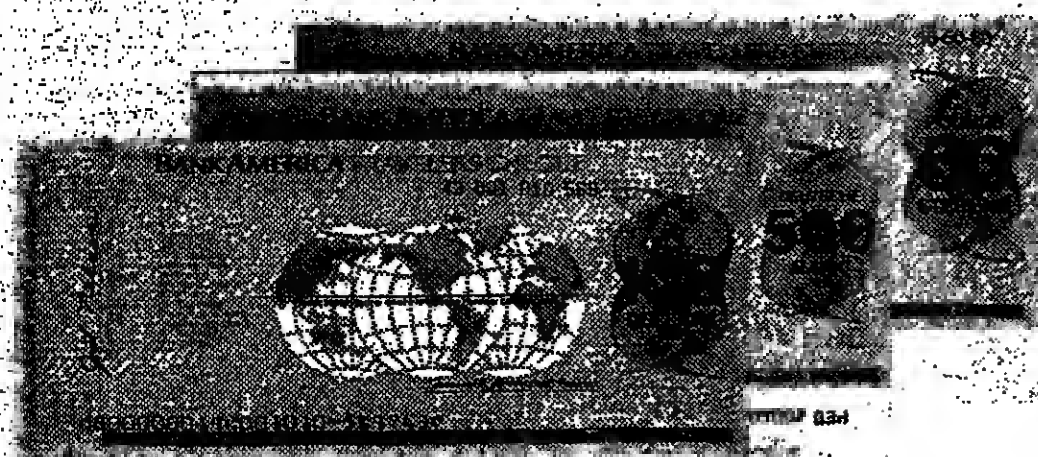
The blue and green bill, bearing the portrait of the 18th-century French philosopher Montesquieu, marks the first time a 200-franc denomination has been used in France. The Bank of France said the new bill was being introduced to lessen the volume of 100-franc notes in circulation.

returning and securing land to a beleaguered people seems fair and simple enough, particularly since the Australian government considers aboriginal land ownership central to its effort to remedy past injustices through self-determination, and especially since nothing else has worked. In the 1930s, the government tried cultural assimilation.

Programs were instituted to help aborigine adults live among the white population. By the 1960s, however, assimilation had clearly failed.

"The policy did not recognize that our culture and spiritual lives were part of our very being, and if these were destroyed so were we," said Sen. Neville Bonner, a Liberal Party representative from Queensland.

Nor did the policy establish the aborigines' standing in law. Only in 1967, when a Commonwealth referendum deleted language in the Australian Constitution exempting the aborigines from constitutional protections, were they



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Save on surcharges. Many hotels outside the U.S. charge exorbitant surcharge fees on international calls. And sometimes the fees are greater than the cost of the call itself. But if your hotel has TELEPLAN, the way to keep hotel surcharges reasonable, go ahead and call. No Teleplan? Read on!

There are other ways to save money. Save with a shortie. In most countries there's no three-minute minimum on self-dialed calls. So if your hotel offers International Dialing from your room, place a short call home and have them call you back. And you pay for the callback from the States

with dollars, not local currency, when you get your next home or office phone bill.

Save these other ways. Telephone Company Calling Card and collect calls may be placed in many countries. And where they are, the hotel surcharges on such calls are usually low. Or, you can avoid surcharges altogether by calling from the post office or from other telephone centers.

Save nights & weekends. Always check to see whether the country you're in has lower rates at night and on weekends. Usually the savings are considerable. Now you'll get more mileage for your money.



## In Argentina, Grandmothers of the Missing Continue to Ask, 'Where Are the Children?'

By Dial Torgerson

Los Angeles Times Service

**BUENOS AIRES**—Some were picked up with their parents, and some were born in the camps where the military government imprisoned suspected subversives in the late 1970s. They are the missing children of the Argentine repression.

An organization of grandmothers makes endless rounds of government offices, always asking the same question: Where are the children?

"But they tell us nothing," said Enrique Estela Barnes de Carlotto. "Somewhere out there, perhaps in this city, I have a grandson. Somewhere there must be a file that says where he is. No one will help me find it."

The Association of Grandmothers says there are 91 known cases in which the children of desapare-

cidos, or disappeared ones, are missing along with their parents.

Twenty-one were seized when their parents were killed or arrested. The others were presumably born while their mothers were in custody.

### Some Adopted

In some cases, the children apparently were a valued by-product of the junta's repression, and military families who wanted to adopt children sometimes took the babies of prisoners, according to testimony given to international human rights agencies.

The grandmothers have a meeting place in a small apartment in central Buenos Aires. They keep their records there and plan the rounds of government offices and the missing children. They say that they are sometimes followed and

that their telephones are disconnected, but they add that no one has been arrested.

Many of the secret police agencies believed to be responsible for seizing their sons and daughters have been dismantled, and the government now denies having any political prisoners.

In the late 1970s, according to human rights agencies, 6,000 to 14,000 Argentines were seized by military security forces. The exact number is not a matter of public record. Only a few hundred are believed to have survived.

The government broke up guerrilla groups of leftists and rightists who had rocked the country with bombings, kidnappings and assassinations. But at the same time, the government seized thousands of people on the slightest evidence, perhaps for no more than having an acquaintance in the underground.

In November, Amnesty International, the London-based human rights group, reported testimony of survivors of the Navy Mechanics School in Buenos Aires. The school was said to have been converted into a camp where up to 4,000 people were reportedly "transferred," a euphemism for executed.

"There were many women expecting the birth of their children," a survivor was quoted as saying. "They did not escape torture despite their condition. Their bodies showed the marks. A few days before delivery, they were taken to a room where the windows were hermetically sealed."

"After the baby was born, the mother was invited to write to relatives who would presumably take the child away. The victim was immediately transferred. The little one stayed behind. Then they took it away."

From the moment of arrival, the fate of both was sealed—for the mother, transfer, for the child, an uncertain future. Under no circumstances could it be handed over to relatives, as it would be living proof of the mother's fate.

### 'Allie'

Mrs. Barnes de Carlotto, 51, a schoolteacher who retired to dedicate herself to finding the children, said that her daughter and son-in-law had been taken away Nov. 26, 1977, and that she had been informed of the birth of a grandson on June 26, 1978.

"Then, two months later, the police told me that she and a young man had been shot and killed in a car outside the capital when they failed to stop for a soldier's roadblock. What a huge lie! She had been in a concentration camp. How could she be out driving in a car?"

In one case the grandmothers found children—sisters who had been put out for adoption through the court system. The grandmothers were able to arrange visitation rights and are pleased with the new parents, who are not connected with the military. The grandmothers believe that somewhere there are records of similar adoptions. But of the children born in captivity, they expect to find no legal record.

"But someone must know," said Maria Fernandez de Urza, whose daughter-in-law, Susana, was 22 and three months pregnant when she and her husband were seized in May, 1976. "In November of 1976, I had word that she was alive, but nothing of the child. Since then I have heard nothing."

"In 1976, my grandchild must have been born," she said. "I don't know whether it was a boy or a girl. It would be 6 years old now. Somewhere in Argentina, there is this child. I must keep searching until I find out where."

Still, anyone coming on the rolls after Jan. 1, 1982, was to lose the guarantee.

The study looked at 165 people



**HOME AGAIN**—A paratrooper, one of 250 members of the 2d and 3d Battalions of the Parachute Regiment returning from the Falkland Islands, was greeted by his mother Tuesday in Brize Norton, England. The paratroopers were welcomed by Prince Charles and their officers.

## Cuts in Social Security Said to Be Less Painful

By Spencer Rich

Washington Post Service

**WASHINGTON**—Repeal of the Social Security minimum benefit for future retirees may harm fewer people than feared, according to a study by the Social Security Administration.

The study, published in the Social Security Bulletin, indicates that about four-fifths of those who will lose eligibility for the minimum as a result of repeal are housewives, but it says that a high proportion of them will lose nothing and may obtain a higher benefit by applying for the wife's free benefit and forgoing benefits based on her earnings.

Under the minimum-benefit provisions, anyone retiring on his or her own earnings record is guaranteed a basic benefit of \$122 a month.

Congress, at the request of President Reagan, repealed the minimum guarantee last year for 3 million people already receiving it as well as for all people coming on the Social Security rolls in the future. In the face of angry protests, Congress eventually restored the minimum for those already on the rolls.

Still, anyone coming on the rolls after Jan. 1, 1982, was to lose the guarantee.

The study looked at 165 people

who first became eligible for benefits in November and who had such low earnings over their lifetimes that the benefits computed from their earnings records would have been lower than the minimum.

The study found that 129 of the 165 were housewives. However, 83 out of the 165 were eligible for a wife's benefit, which is available to a married woman 62 or older whose husband is drawing benefits, provided she gives up any benefit based on her own earnings record. The wife's benefit is equal to 50 percent of her husband's.

Some of the remaining 82 persons in the study were expected to become eligible for spouse's benefits later, although the study could not determine the exact number.

Seventeen others were federal, state or local government employees whose records indicated long enough government employment for probable entitlement to pensions from their employers.

### Greece Currency Violation

Reuters

**ATHENS**—Robert Henar, a Dutch businessman, was sentenced here Tuesday to two and a half years in prison for trying to smuggle 22 million drachmas (\$310,000) out of Greece.

## 11-Year Study Shows Higher Risk of Mishap At U.S. Nuclear Plants

By Matthew L. Wald

New York Times Service

**NEW YORK**—A study of thousands of mishaps at nuclear plants from 1969 through 1979 has concluded that an accident as bad as the one at Three Mile Island, or worse, could have been expected every 10 to 15 years, given the equipment at the plants in that period.

The draft study, dated June, 1982, was made for the Nuclear Regulatory Commission by the Oak Ridge National Laboratory. It is a major reassessment of the risks of nuclear power.

The study found that a major accident was likely to occur once in 1,000 reactor-years, compared with the commission's historic Reactor Safety Study, completed in 1975, which found the risk to be one accident in 20,000 years of reactor operation.

The probability of accident established by the Oak Ridge study is "about 10 times higher than we would like to see it," said Robert Bernero, director of the Division of Risk Analysis of the regulatory commission. The commission recently set a safety goal of reducing the probability of accidents to one in 10,000 years of reactor operation.

### A Guide for Owners

The Oak Ridge report is to tell the plant owner "which are the most important systems in his plant, which are the most important weak points in his plant, and where he should concentrate inspections, surveillance, testing and quality control," Mr. Bernero said.

He added, however, that the chance of accident had already been cut by changes ordered after the March, 1979, accident at Three Mile Island near Harrisburg, Pa.

The Oak Ridge study includes no data after 1979, and it is not possible to assess the value of each of those changes, he said. The report means that the official estimate has been revised from one accident in 20,000 years to one in 1,000 years, but officials feel that their new estimate is too pessimistic in light of recent safety improvements.

There are 74 operating nuclear power plants in the United States, so the nation gains 1,000 years of reactor operating experience every 13 and a half years. Core damage at the Three Mile Island Unit 2 plant, the most severe power reactor accident ever, resulted in minor release of radioactivity into the environment, and it will cost about \$1 billion to repair.

The Oak Ridge study surveyed 19,400 failures in the 11-year period, and identified 169 as being potential contributors to serious accidents.

## U.K. Reporter Freed by Argentina Tells of His Experience in Prison

By James Feron

New York Times Service

**LONDON**—Simon Winchester, one of the three British journalists imprisoned for 77 days by Argentina on spying charges, reported this weekend that while in prison he kept records of the movements of military planes and ships "which we could glimpse through the cell's grimy little window."

Mr. Winchester, of The Sunday Times, was being held in Ushuaia, at the southern tip of Argentina, with Ian Mather, a reporter, and Tony Prime, a photographer, who work for another Sunday newspaper, The Observer. They were freed on bail Tuesday and said on their arrival in Britain that they would return to stand trial.

The jail, Mr. Winchester said in an article for his paper Sunday, provided a "curious perspective on the war." It was from Ushuaia and "while we were there," for example, that the Belgrano, Argentina's cruiser, left on her final voyage.

She was sunk by the nuclear-powered submarine Conqueror.

"Scores of destroyers, frigates and patrol boats scuttled into port once the vulnerability of the big ships was proven by her loss," he said, and "we saw the Skyriders and the Daggers," Argentine fighter planes, "leave to attack the task force."

### 'Fresh' Information

"It was terribly frustrating knowing all this and not being able to relate it," he wrote. The journalists were given additional information by the local police chief, who was also a naval captain and "would come fresh from the war room to tell us things."

On one occasion, according to Mr. Winchester, the official said that a British frigate, spotted near Cape Horn, "had been ordered sunk by an Exocet," an air-to-surface missile that was to prove effective for Argentina, but "last-minute orders from Buenos Aires called the attack plane home" to Rio Gallegos, a nearby port.

Mr. Winchester wrote that he had been accused of using binoculars while waiting for a commercial flight at Rio Grande, also nearby, "to observe Daggers, Aeromachs and a solitary Neptune anti-submarine plane" take off. "I took notes," he acknowledged, and "ventured to ask a waiting pilot to identify the passing hardware."

### Medical Examination

He also said that after he had admitted meeting on three occasions with British military attaches an Argentine judge declared that the conversations "were as among

equals" and that Mr. Winchester's notes were "of a type and a caliber not usually available to an ordinary correspondent."

Mr. Mather, writing in The Observer, said the first days after their arrest April 13 had been the worst. But a medical examination that had terrifying implications turned out to be an inspection for possible earlier abuse, and a portable electric generator that had been wheeled into a cell was used to weld a broken door.

The three were permitted to share a cell, keep diaries, listen to the BBC World Service—and thus inform their captors of Argentine losses—read letters from Britain and books provided by an English resident of Ushuaia. They also argued over whether compliance or defiance was the best policy.

Conditions improved as Argentina's military prospects declined, they wrote. They were eventually moved to a "suite" of cells previously occupied by a prostitute, and one night near the end of hostilities, Mr. Winchester wrote, "I made so bold as to demand wine with our trip and, astonishingly, I got it."

### U.S. Jet Skids on Takeoff

The Associated Press

**BOISE, Idaho**—A Republic Airlines DC-9 jetliner skidded off the end of a runway on takeoff at the Boise airport Monday as the pilot tried to stop the plane because of a warning light, officials said. None of the 79 passengers was injured.

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# San Francisco Gun Ban Sets Stage for Showdown in Courts

## Challenges Would Test 2 Constitutions, California Law

By Philip Hager  
Los Angeles Times Service

SAN FRANCISCO — Ordinarily there would be little to write about the National Rifle Association, the White Panther Party and Gays for Guns.

Yet in politically fractious San Francisco, those and other diverse groups have joined in opposing Mayor Dianne Feinstein's plan to ban the possession and sale of handguns, a move she calls "domestic disarmament."

San Francisco is going ahead with the ban, and the stage is set for a legal test of the power of municipalities to control guns. At issue is whether the city has power to regulate firearms in view of state laws on the subject and the U.S. Constitution's Second Amendment guarantee of the right to keep and bear arms.

"Calls to my office are running four to one against the ban," said Supervisor Carol Ruth Silver, a member of the recently organized Committee Against Confiscation of Handguns. "People feel they're threatened with crime and violence and that they need handguns for self-protection. They intend to defy the law."

If and when the ban takes effect, she said she will replace her handgun with a shotgun. "My home will not be defenseless," she said.

The San Francisco homicide rate jumped 16 percent last year and half of the 126 killings involved handguns.

"This is the first time in America that a large city has spoken out to say we've had enough death, destruction and dismemberment from the handgun," Mayor Feinstein said as she signed the ordinance last week.

The measure makes it a misdemeanor to sell or possess pistols in the city limits. Violators would be punished by up to 30 days in jail. The measure exempts the police, the military, licensed target shooters and gun collectors, private investigators and security guards, as well as owners of businesses who hold a permit.

The law will not go into effect until July 28, and then gun owners will have 90 days to get rid of their

weapons or get a court injunction against enforcement.

The ordinance goes further than a California state handgun initiative scheduled to be put before the voters in November. That measure would require registration of handguns.

A spokesman for Californians Against Street Crime, the organization sponsoring the initiative, sees no conflict between local handgun bans and statewide registration, but he says the November initiative is more likely to win approval both by voters and the courts.

Mayor Feinstein introduced the measure last February, and the ensuing debate has been charged with emotion.

Members of the militant White Panthers waved a banner quoting the Bill of Rights. A Panther leader, Thomas Stevens, accused advocates of "trying to outlaw courage and decency."

A spokesman for Gays for Guns told the supervisors that homosexuals needed handguns to protect themselves from attacks. "I will try and empty all six rounds into anyone who attempts to take it away from me, no matter what they are wearing," he said.

When the measure came up for final approval, Supervisor Richard Hongisto, a former sheriff, urged its adoption, noting that there were other means available for self-protection — dogs, burglar alarms, window bars and rifles. "Rifles are very good for killing," Mr. Hongisto said. "If you feel that you need to kill someone entering your home, I suggest you consider a rifle."

Supervisor Quentin Kopp said the ban would be futile because of dubious legality. The district attorney said he believed the ordinance was unconstitutional.

It nevertheless passed by a vote

of 6 to 4. Now the battle shifts to the courts.

Across San Francisco Bay, Berkeley passed a similar ban last week but delayed implementation pending a test of its legality. Other proposed bans are pending in the nearby communities of Sunnyvale and Palo Alto.

San Francisco's legal argument against the constitutional argument is that the right to bear arms is a collective right for common defense, not an individual right. Lawyers for the city are encouraged by a recent ruling in a U.S. District Court in Illinois upholding a handgun ban enacted by the village of Morton Grove.

The federal court said that the Second Amendment's guarantee does not apply to controls passed by states and localities.

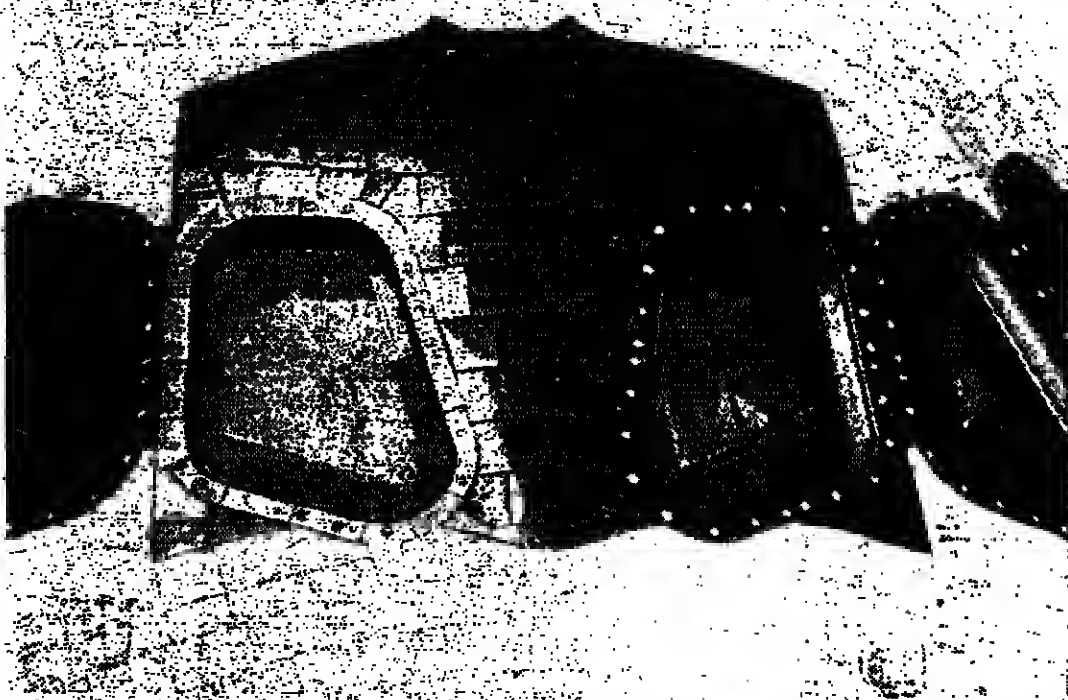
On the state level, the city concedes that state licensing laws have preempted much of the field,

but it contends that if the Legislature wanted to prevent local bans it would have said so specifically.

The challenge now being drafted by the citizens committee will assert that the ordinance violates not only the Constitution's right to bear arms, but also its guarantees of equal protection and due process, as well as a "right to self defense" implicit in California's state constitution.

The state constitution sets forth "inalienable rights," among them, "defending life and liberty, acquiring, possessing and protecting property, and pursuing and obtaining safety, happiness and privacy."

Supervisor Silver, an attorney, says a handgun ban would discriminate against minorities and persons with low incomes. "Where the police are unable to offer adequate protection, particularly in less affluent communities, it is a denial of equal protection to take self-defense mechanisms away from the people," she said.



The space shuttle's heat tiles can withstand temperatures reaching 1,650 degrees Celsius (3,000 Fahrenheit) upon re-entering the atmosphere. Sunday, for the first time, all 31,000 returned intact.

## NASA Official Reports Columbia Returned in 'Really Good Shape'

By Nicolson Himmel  
Los Angeles Times Service

EDWARDS AIR FORCE BASE, Calif. — Columbia, the space shuttle, came through its seven-day voyage in "really good shape," according to James P. Harrington, ground operations manager for the National Aeronautics and Space Administration. Mr. Harrington said Monday after a preliminary examination that only about 20 of the heat protective tiles on the shuttle were damaged. And for the first time, Columbia returned with all of its 31,000 tiles intact. The tiles protect the orbiter from the furnace-like heat of re-entry into the Earth's atmosphere.

Minor Engine Leak  
The astronauts, Capt. Thomas K. Mattingly and Michael J. Smith, were reported resting and in good shape at their homes in Houston, where the Johnson Space Center is located.

Mr. Harrington reported only one other mishap, what he termed "a very, very minor leak," in a for-

ward thruster engine after landing. The engine lost less than a quart of its oxidizer fluid from the seep, he said.

There was less damage to the underside of the DC-9 sized fuselage this time because of the landing on the concrete runway at Edwards, Mr. Harrington said. The underside had formerly been pelted by pieces of gravel and clay when landing on the lakebed at Edwards or White Sands Air Force Base in New Mexico.

All of this, Mr. Harrington said, "gives me inclination to bring it home next time."

He was speaking of the concrete runway at Kennedy Space Center at Cape Canaveral, Fla. The Columbia ended its roll 4,160 feet from the end of the 15,000-foot concrete runway, the same length as Kennedy Space Center's concrete runway.

Room for 2 More

Present plans are to place the Columbia on a 747 carrier plane at NASA's research center here and then fly it piggyback to Florida on July 15.

NASA officials are so confident of Columbia's performance, Mr. Harrington said, that they will disconnect its emergency ejection system at Cape Canaveral along with some experimental test systems. This will permit the carrying of two additional passengers. They will be astronauts who are mission specialists and will occupy two seats below the pilots' flight deck.

Air Force Lt. Gen. James A. Abrahamson, manager of the shuttle program, said that Columbia could go on its fifth mission in late October if the two firms that have contracted to supply two satellites for its payload are ready to go.

One satellite, owned by Satellite Business Systems, will be for digital industry and business communications. The other will be owned by Telesat Canada Ltd. It will be for voice communication and television coverage.

The payload doors of the shuttle, which have caused problems on previous missions, appeared to have fared well and should open up on command to launch the two satellites into an orbit at about 22,500 miles above Earth.

The "baking" that was done in orbit as Columbia gently rolled appeared to have benefited the tiles, Mr. Harrington said. The damage that was caused to about 400 of the tiles by a hail storm the day before launch was cleared up by the heat of the solar rays.

Portuguese Train Derails

LISBON — An overnight express train from the northern city of Oporto to Lisbon jumped its tracks on a bridge 60 kilometers (38 miles) north of here early Tuesday, killing the driver and his assistant and injuring 40 people. Portuguese rail officials reported. The train fell 10 meters (33 feet) into the Muge river, officials said.

## John Watts, Composer, Dies in U.S.

New York Times Service

NEW YORK — John Watts, 52, a composer whose works and performance helped popularize the electronic synthesizer as a musical instrument, died Friday.

Mr. Watts composed more than 100 works for concert, dance, film and theater. As a master of the synthesizer, Mr. Watts put on many concerts in such auditoriums as the John F. Kennedy Center for the Performing Arts in Washington, Alice Tully Hall at Lincoln Center and the Museum of Modern Art in New York.

Sir Geoffrey Keyes  
LONDON (AP) — Sir Geoffrey Keyes, 95, a surgeon and scholar whose brother was the late economist John Maynard Keynes, died Monday. He wrote a biography of William Harvey.  
He was chairman of the National Portrait Gallery from 1958-1966. He also helped produce the ballet "Job," set to music by Ralph Vaughan Williams in 1941. Knighted in 1953, Sir Geoffrey was over 90 when he began his autobiography, "The Gates of Memory," which appeared in 1981.

Hugh Lynn Cayce  
VIRGINIA BEACH, Va. (UPI) — Hugh Lynn Cayce, a psychic phenomena specialist, died Sunday of cancer.  
An author and lecturer, Mr. Cayce was chairman of the board of the Association for Research and Enlightenment. His father, Edgar Cayce, was a well-known clairvoyant.

Ramon Ormazabal  
Bilbao, Spain (AP) — Ramon Ormazabal, 72, president and charter member of the Basque Communist Party, died Monday following a heart attack.

Col. Gen. Ivan Gubiu  
MOSCOW (AP) — Col. Gen. Ivan Gubiu, 60, chief of the political department of the Soviet command in East Germany, has died, Tass reported Monday.

## Russian Resumes Hunger Strike for Right to Emigrate

United Press International

MOSCOW — Yuri Balovlenkov, a Soviet citizen who has not received an exit visa that he said was promised to him during a 43-day hunger strike, resumed fasting Monday for the right to join his wife and daughter in the United States.

Mr. Balovlenkov, 33, was one of seven members of the Divided Families Group who stopped eating on May 10. They were seeking permission to join their spouses in the West.

He was the last one to end his fast, entering a hospital and accepting food on June 21, when he reported receiving word from the authorities that he would be allowed to leave the country.

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# Herald Tribune

Published With The New York Times and The Washington Post

## Refugees in General ...

From THE WASHINGTON POST.

The first refugees to arrive in America came ashore at Plymouth in 1620. The Pilgrims, fleeing religious persecution in their homeland, were not like their fellow Englishmen who had settled in Jamestown 13 years earlier. The first Virginians were well established, secure, even prominent in their homeland. They came to the New World seeking economic opportunity. Both kinds of settlers found what they were looking for, as did millions of others who came in a virtually unrestricted stream for another 300 years.

After World War I, numerical quotas for immigrants were adopted, but no special category was provided for those fleeing from persecution. After World War II, however, it became clear that Americans wanted to assume a special obligation for persons who were victims of persecution, and it was decided to admit such refugees in numbers over and above the quota for regular immigrants. In the 1940s, America took in hundreds of thousands of persons who had been displaced by the war or had fled their communist homelands. After the Vietnam War, it assumed the indisputable responsibility to accept and resettle half a million Indochinese. More recently, Congress has been asked to grant special asylum to 125,000 Cubans and Haitians who arrived in 1980.

In 1980, Congress enacted legislation to create a framework for the admission of refugees that would be both fair and flexible. A definition of "refugee" was adopted: a person "who is unable or unwilling ... to return to his country because of persecution or a well founded fear of persecution on account of race, religion, nationality, membership in a particular social group, or political opinion." Fifty thousand such persons can be admitted each year, and if he believes it is necessary the president can admit an unlimited additional number as long as he notifies Congress. Last year that number rose to 217,000.

Because the quota for regular immigrants fills up rapidly, more and more would-be Americans are claiming refugee status and asking for admission in that category. A case of admission for refugees is virtually unlimited, it is easy to see why this status is

desirable. It is terribly difficult, however, to put people in simple categories. Most immigrants move for a combination of reasons, as so many of the earlier immigrants did. Catholics were not happy in British Ireland, Jews suffered discrimination in Eastern Europe and Huguenots in Catholic France; but they came because they wanted a better life economically. One would be hard pressed to call them either refugees from persecution or economic immigrants, since they were both.

This is the dilemma faced by the Immigration and Naturalization Service in sorting out the demands of more than 100,000 Haitians. Ethiopians, Nicaraguans and others who have claimed asylum — refugee status — in the United States. The test is not whether their country of origin is less than a perfect democracy, but whether each applicant, as an individual, would suffer persecution if he returned to his homeland. Unless a personal jeopardy can be demonstrated, the applicant is considered an ordinary immigrant and must wait at the end of a very long line.

The magnitude of this problem increases daily. War in Central America has brought tens of thousands. A comparable number of Haitians has already arrived, and the government estimates that another 40,000 are in the Bahamas waiting to immigrate if their compatriots are granted refugee status. The state of Florida, in particular, is hard pressed to care for these aliens, 70 percent of whom are now receiving some form of welfare from state and federal governments.

The burning desire of so many refugees and immigrants to come is a tribute. They come not simply because America is prosperous but also because it is free. The sad fact is that Americans are no longer able to follow humanitarian instincts and accept, as has been done for so many years, anyone who wants to come. Because of economic conditions and the need to maintain social and political stability, the flow must be regulated and hard choices made about who will be admitted. As a result, distinguishing real refugees from the hundreds of thousands of desperately poor people who simply want a chance in the United States is becoming the most difficult and painful choice of all.

## ... and in Particular

From THE NEW YORK TIMES.

What is it about 1,910 pitiful Haitian migrants that makes otherwise reasonable Reagan administration officials so reluctant? The Haitians are poor, ragged, black people desperate to escape poverty or persecution. If they can show the likelihood of persecution back home, they can stay, legitimate refugees. If not, they must return. The issue has been what to do with them in the meantime.

Throughout the year the Haitians have had a choice: Go back to Haiti, where many face beatings, extortion and death, or stay in the detention camps. Most have stayed. How do they feel about it? Suicidal, for one thing. Some swallow shards of glass, try hanging themselves with trousers, cut their wrists. Just since April there have been 30 suicide attempts or "suicidal gestures." Federal psychiatrists report a "rather alarming increase" in mental disturbance.

The fault is not in the principle of detention. The United States has a right to control its borders. It has a duty to protect applicants patiently waiting for legal admission against gate crashers, however pitiful. What is wrong is that, as the case has dragged on, the most creative, humane policy the U.S. government could contrive was to keep them locked up.

## Other Editorial Opinion

### Pressures of Practicality

There is no permanent settlement to be sought which does not involve Buenos Aires. "Permanent" is the word to grasp, in a world of impermanent prime ministers and deeply impermanent juntas. A strictly military outcome cannot endure. The rhetoric of Fortresses Falklands will wane. Governor Hunt will retire to Surrey and his memoirs. British governments will, in the end, succumb to permanent pressures in the work outside pressures, in the future, in the past, of geography and practicality.

Britain's military success in the South Atlantic could transmute into a long-term burden. There seems no signs that Argentina will reconcile itself to defeat, whatever the regime, and this would mean tying up British forces that could be better employed in NATO. The question that now has to be faced is whether the interests of the Falkland Kelpers can be served without paying a price that Britain and the West as a whole can ill afford. For the time being, the military decision does not eliminate the need to plan a new future acceptable to all concerned.

— *New Zürcher Zeitung (Zurich).*

Britain's success cannot change geography. The Falklands remain 250 miles from Argentina and half a world from England. They are

economically next to useless and can be defended only at a cost more than they are worth. Prime Minister Margaret Thatcher should let Argentina know that negotiations can be resumed after a decent interval.

Mrs. Thatcher now must resist the simplistic slogan being voiced, to the effect that if the islands were worth fighting for they are worth keeping. In the long run, they aren't.

— *Scripps-Howard Newspapers.*

### Angola, Cuba, Namibia

[Cuban military personnel] are in Angola at the request of the government of Angola to cooperate in the defense of the country's territorial integrity, which is constantly threatened and attacked by the racist South Africans, their mercenaries and their puppets. [The Cubans' presence] has no relation to the problem of Namibia. Raising the "Cuban troops" issue is a way of blocking the decisions of the international community.

— *The Angolan news agency ANGOP.*

It is six years since Security Council resolution 385 called for South Africa's withdrawal from Namibia and free elections. If the comprehensive peace in southern Africa will have taken a momentous step forward and the West's wandering credibility in Africa will have been restored.

— *The Times (London).*

## JULY 7: FROM OUR PAGES 75 AND 50 YEARS AGO

### 1907: On Japanese Ambition

NEW YORK — The Herald comments: "The disquieting commercial situation in the Far East and the crystallizing national sentiment in Japan to absorb the trade and power of the Asiatic seas have been set forth with convincing clearness in a letter published in this paper. The writer asserts that the attempt of Japan to control Eastern Asia by her own policies is manifestly unfair, because it disregards the rights granted by the treaties still in force. Britain is in a great degree responsible for this mischief by the unwise alliance that complemented the war preparedness of Japan. But the United States, the foster mother of the Japanese, is equally responsible."

### 1932: Costs of Prohibition

PARIS — The editorial in the Herald reads: "The American taxpayer has a right to feel pleased over the reasonable probability that, within the next few years, there will be a softening of the rigors of prohibition so that beer may again become an article of legitimate manufacture and sale. The first national emergency for which the repeal of prohibition will be responsible is the cost of enforcement to the Department of Justice, which, in 1931, was \$51 million. To this is to be added the saving to the taxpayer in lessened need capacity of court machinery, jails, asylums and other agencies for the correction of bootlegging with its army of criminals."

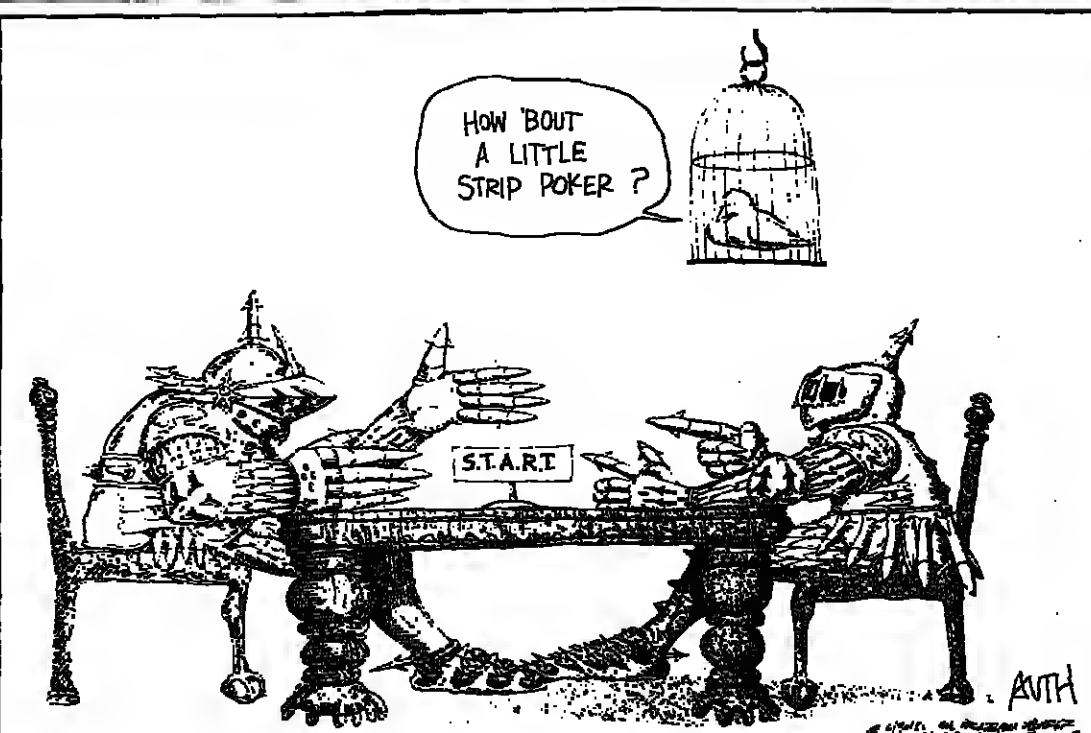
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## Russians Fault the U.S. 'Partner'

By Anthony Lewis

MOSCOW — An old Soviet acquaintance, who in the past was given to restraint and a certain irony in conversation, spoke grimly this time about Soviet-American relations. "We are not so thick-skinned as to brush off what Reagan says about us," he said.

I think he is hopeless in this — so blind to the defects in his own system, so implacable toward the other. It's his hobby. And it's not only rhetoric. You can't forget that five-year defense guidance.

"With the present administration there is no hope for normality in our relations. They're too ignorant, too happy in their self-erected tower. I pray that before Reagan's term is up we are not in conflict somewhere in the world."

That is a fair sample of the tone I have found in the first few days of a visit to Moscow. Party and government officials have sounded bitterly resentful of the Reagan administration's anti-Soviet rhetoric, and very harsh in their comments on its personalities, including the president. They have come close to saying that there is no use trying to do business with this U.S. government — but in the end they have not written off negotiation.

Some relief from the gloom comes when officials talk about the appointment of George Shultz as secretary of state. They say they know he is a conservative, but they see him as "serious" and "business-like." A Soviet diplomat said: "My impression is that he uses more moderate language, and in diplomacy language is important."

President Reagan's tough language about the Soviet Union has evidently grated. There was much comment on his London speech of June 8 in which he predicted that Marxism-Leninism would be left "on the ash heap of history."

"Reagan keeps saying this country is on the brink of collapse," said one man. "Andrei Gromyko has outlived eight secretaries of state in your more durable system!" Another said such comments suggested that the president and his colleagues had "become victims of their own propaganda."

Soviet propagandists have said such harsh things about the United States over the years, and about capitalism, that the outrage at Reagan's words can sound hypocritical, or at least peculiar. After all, Nikita Khrushchev did say that "We will bury you." But I have the impression that the resentment people express is genuine.

Several officials said propaganda should be left to propagandists, not taken up by heads of state. That overlooks Khrushchev. But a number of Western diplomats said they thought President Reagan's rhetoric really had offended people, and was counterproductive. Factual criticism was one thing, they suggested, but predictions of Soviet collapse were another.

There were interesting threads in a long talk I had with Valentin M. Falin, deputy chief of the Central Committee's International Infor-

mation Department. A former ambassador to West Germany, regarded by Westerners in Moscow as an important spokesman, Falin suggested that the Reagan comments were more than rhetoric.

"Attempts to destabilize us are serious," he said. "We have to pay attention to them."

"Richard Pipes, a member of the National Security Council staff, said there could not be peace with the Soviet Union until it changed its system. Then President Reagan said the same thing in London — the president, not a staff member. It is a precondition."

Falin said the president's campaign positions and right-wing constituency "make it hard to do business with him. If he changes, people will call him inconsistent." When I made the point that Reagan had in fact changed significant positions, as on arms control, Falin agreed that his arms speech in Eureka, Ill., had been important. But there were conflicting signals, he said, such as the London speech and the defense guidance paper.

It was all very pessimistic, I said. Would Moscow try to negotiate despite its expressed doubts about the Reagan administration? "It's not pessimistic," Falin said. "It's realistic. We have a joke: 'The optimist is a less-informed pessimist.'"

"But we have a partner, and it is the United States. It has an elected government. We have no choice but to maintain relations with that government. We have to live on this earth together."

The New York Times

## Taiwan and China: A Time for Quietly Determined Diplomacy

by Stanley Karnow

WASHINGTON — The Chinese are edging toward an accommodation with their mainland Communist enemies after a generation of bitter hostility. The trend ought to be encouraged by the United States.

A sign of new attitudes was reflected the other day in a statement by the Nationalist premier, Sun Yun-chuan, who said that "conditions for peaceful reunification can gradually mature" as the political, economic and cultural differences between the rivals "continue to narrow."

Sun suggests an inevitability to an eventual understanding when he goes on to say that the obstacles to a reconciliation "will be reduced naturally with the passage of time."

His remark is a sharp change from the position formerly taken by the Nationalists that no deal could even be contemplated until their mainland adversaries renounced communism.

It would be going too far, I think, to expect that Sun's comments will lead to rapid negotiations, but this could be the beginning of a slow process which, over time, would contribute to peace in the region.

The United States should not become directly involved. The issues at stake are Chinese and can best be resolved by the Chinese themselves in their own way. Still, America can oblige its influence events.

President Reagan might indicate that he has dropped his campaign pledge to extend official U.S. recognition to a separate government in Taiwan. Moreover, he should make clear that he has no intention of rearming the Nationalists.

Above all he ought to consider a visit to China to reconsolidate the Sino-American relationship and thereby dramatize to the Nationalists,

as President Nixon did, that their long-term security lies in some kind of deal with the Peking regime.

The Communists have been trying to induce the Nationalists to negotiate a deal for several years. Offers have included the promise that Taiwan could retain its own form of government, its own economic structure and even its own army.

The Nationalists have not been receptive, at least in public. But it is almost certain that they have been carrying on secret contacts with the Communists, probably through intermediaries in Hong Kong and Japan. And the Nationalists have tolerated a soaring clandestine trade between Taiwan and China.

Firm statistics are hard to obtain, but reliable estimates are that about 90 percent of Taiwan's exports to Hong Kong are redirected to China.

The Chinese have been especially interested in synthetic fibers and electronic equipment made in Taiwan.

Chinese officials allow Taiwan's products into China without charging customs duties. Since Taiwan is technically a province of China, they say, the trade is domestic.

On Taiwan, meanwhile, businessmen have long urged that trade with China be encouraged. They say China is an ideal market for their products, and they have resented the fact that they have been losing out to Western and Japanese competitors.

Some of these businessmen also submit that closer economic ties with China will serve to guarantee Taiwan's safety. In their view, the mainland Chinese will not make any military moves against Taiwan if a strong economic link develops.

The model is Hong Kong, a British

colony that the Chinese accept because it reaps them fat profits from trade and investment. A 99-year lease on part of Hong Kong territory is due to expire at the end of the century, but the betting is that the Chinese government will renegotiate it.

The tricky factor in all this is the status of the Nationalist government on Taiwan, which claims to rule China in theory. With that claim punctured, the Nationalists would have no reason for existence. So Chiang Kai-shek, the Nationalist president, has been wary of any accommodation with China that would have the effect of undermining his own regime.

But the Chinese have been master diplomats for 5,000 years, and they can surely contrive ways to reach a settlement in which neither side loses face. This, it seems to me, is what they are trying to do now, and the effort ought to be applauded.

Tribune and Register Syndicate

## LETTERS TO THE EDITOR

### Reading a Cartoon

If every photograph tells a story, so do cartoons, especially your recent unfair caricature of Israel. The cartoon that appeared on June 21 hits a new low. I didn't see the same cartoon when Israeli children were massacred in Malat, Kfar Shmoneh or many other places. Civilians would not get hurt if the PLO wouldn't hide behind them or



slack its arms in apartment buildings, schools and hospitals — as the Israelis knew and the world press is just beginning to discover.

J.J. FORESTIER, Geneva.

The Mauldin cartoon showing Begin shooting through civilians to get at a PLO terrorist was a perfect depiction of the cowardice of the PLO. They plant themselves in the overpopulated civilian areas of Beirut to use innocent people as cover, just like the bad guys in old Westerns.

That was what Mr. Mauldin meant, wasn't it?

F. MILLER, London.

### Cedar and Eucalyptus

Israel needs the comfort of outside contact as much as financial aid — I am not sure in what order.

### Reflections on June 27, homeward bound from Israel

● The cedars of Lebanon, their roots torn from the earth, rot with the stench of blood in the night. The civil war of the past few years has helped the friends of their enemies to repair the damage.

● The eucalypti of Hadara and the Hulah bend and sway, buffeted by the wind of change, their roots deep in the soil — planted with vision, the lifeblood of the lovers of Zion, indelible.

● We have lived through a special moment, privileged to share in the heartache and trauma of another war. The whole country mourns its young, and we have felt and known the uniqueness of these indomitable people who cry behind closed doors but behave to the stranger at the gate with controlled normality.

● To the Lebanese Christian and Moslem alike they are the army of liberation. The world should applaud their bravery, instead of the constant battering of condemnation.

Now they need your understanding. Stand firmly behind your family, and the eucalyptus will stand firm.

MINNIE GILBERT, London.

### And Still No End?

Regarding "Three Nations Wrecked and Still No End" (JHT, June 21): William Pfaff's analysis is incredibly simplistic. The expulsion of the Jews from their homes hardly started in 1932; it had been occurring for many hundreds of years. A Jewish ghetto was established in Venice early in the 16th century, and Jews were not exactly honored guests during Rameses' reign in Egypt. What is even more disconcerting is the equating of the acts of Hitler and of Israel.

ANDREW GOODMAN, Berkeley, California.

### 'Out of Control'

The Israelis have loosed the dogs of war again. They are out of control. They openly reject any deference to

the Americans, taking the American taxpayer's money and metaphorically, spitting in his face, while making the president of the United States look like a stupid, ineffectual politician.

CHARLES CUNNINGHAM, London.

### A Taiwan View

Regarding "Discovering One China" (JHT, May 14): This editorial embraced Peking's "peace proposals" almost verbatim and did not make even a feeble effort to understand the apprehensions of Taiwan.

Peking may talk of peace but it has continued its vigorous efforts to isolate Taiwan (see "China Warns All States Against Ties to Taiwan," JHT, March 18). The crux of Peking's proposal is to press the Republic of China on Taiwan to give up its sovereignty, which is out of the question.

Whatever Taiwan's shortcomings, the people here still enjoy infinitely greater political, social and economic freedom than those on the mainland. As long as we maintain our sovereignty, we will control our destiny.

There is only one China, and the reunification of China is the common goal of all Chinese people. But the Chinese people of Taiwan (and many on the mainland) are convinced that communism is not the only way.

As for the crisis in Washington, Peking relations, Peking not Washington, should get most of the blame. When U.S.-Chinese diplomatic relations were established in 1979, the Carter administration and the U.S. Congress, through the Taiwan Relations Act, made it clear that the United States intended to continue its sales to Taiwan indefinitely. When Peking disagreed, it acquiesced in proceeding with the "normalization" process with the United States. The only reason Washington-Peking relations are now in "crisis" is that Peking decided to dredge up an issue knowingly ignored in 1979.

Thus, the Reagan administration should not feel it has anything to explain or apologize for.

CHIH-CHEN HSU, Taipei.



## ARTS/LEISURE

### Beer That Made Qingdao Famous

By Michael Weisskopf  
Washington Post Service

QINGDAO, China — Except for Karl Marx, the most important German contribution to modern China may be the beer that made this city famous.

Tsingtao beer, produced here since Kaiser Wilhelm had a brewery built for German settlers in 1903, is China's premier brew. In a society short of delicacies, a bottle of Tsingtao is cherished as Havana cigars or Beluga caviar might be somewhere else.

Tsingtao has won gold medals and recently moved Red Army Marshal Ye Jianying to write a poem comparing it to a famous plum wine of classical times. When communist officials visit this resort city on the Yellow Sea, they go to the old brewery for a little impromptu and a lot of imbibing.

Three years ago, Peking mandated a new system for rendering Chinese characters into Roman letters, but although this city's spelling was changed from Tsingtao to Qingdao, no one dared to tinker with the label of a beer now exported to 30 countries.

Few other products of China's colonial past have survived 33 years of communist rule. European churches and racetracks have been razed. Rickshaws and coolies are long gone and street names have been altered.

Tsingtao beer, however, has flourished. Output has increased more than fourfold since 1949. Even at 63 cents per bottle — about half a month's rent for many urban Chinese — supply falls far short of demand.

Like everything else that works well in communist China, Tsingtao is officially praised as a socialist virtue. "The purpose of revolution is to raise production to meet the people's demands," declared the brewery's political commissar. "Beer is just one thing people demand. In capitalist countries, the people go on strike because their demands go unsatisfied. That doesn't happen here."

However, the fragrant, yeasty brew is enjoyed by few socialists in China. Seven of every 10 bottles are sold abroad, reserved for capitalists who pay hard currency. Although plans are afoot to double produc-

tion, the increase would mean "We will give a little more to friendly countries," said brewery liaison officer Zhang Xiyang.

Tsingtao's formula has remained untouched since German beermakers opened the squat, red-brick brewery here almost 80 years ago. The Kaiser's troops occupied this coastal town in 1897 after a German priest was killed by the Chinese. The Teutonic presence was a brief and unhappy one for the occupiers who were accused of mistreating coolies and forcibly imposing their European culture.

"If a Chinese was killed by a German, the German had to pay 20 silver dollars," said local historian Lu Hai. "But when a Chinese killed a German priest, the Germans thought it was so serious they took over."

On the Kaiser's birthday, the medieval Chinese town was turned into a miniature Munich with fireworks, red banners strung from archways, brass bands and, of course, flowing beer.

Mixing an old German recipe with the cool, clear springs of Lao mountain 20 miles away, Tsingtao's founders did more to elevate the Kaiser's name than anything else in 17 years of German control.

For those who cannot afford or find Tsingtao, beer is served up "raw" in large plastic buckets at restaurants and parks. Sold by the ounce, it costs about one-quarter as much as a bottle of Tsingtao. Almost every small city produces its own brew, of varying quality.

Tsingtao, however, remains the Chinese king of beer, regularly rhapsodized by Chinese officials and foreign visitors. Last year, West German beer makers visited the brewery. After entering the plant, the Germans were offered cups of hot tea, the Chinese custom for welcoming travelers. The visitors asked for beer.

At banquets, the Chinese hosts toasted with the fiery Chinese spirit *mao tai*. The Germans toasted with beer. Every night after dinner, the Germans retired with several bottles of the beer.

As the delegation prepared to float off to other parts of China, the leader stopped at the brewery for a farewell visit. He thanked his hosts and sheepishly asked for two more cases of Tsingtao.

### When Children Start to Swear

By Nadine Brozan  
New York Times Service

NEW YORK — The child comes home from nursery school and proudly pronounces a new word — an obscenity. His mother flinches. "Where did you learn that?" she asks with astonishment that is evident to the child. "From my friend," the child replies.

It is inevitable, according to psychiatric authorities, teachers and parents, that children will hear obscene words from friends, and, because they are so impressed with the attention the words can generate, will use them.

Discussing parental reactions, Dr. E. Gerald Dabbs, a child and adolescent psychiatrist and an associate clinical professor of psychiatry at the Cornell University College of Medicine, said: "Most parents are startled when they hear an obscenity from a 4-year-old. Others who use the words freely themselves don't even hear it."

While such words have always provoked controversy, society has become increasingly lenient about them since Americans began bringing the language of stress back from World War II, according to Chaytor D. Mason, associate professor of human factors-psychology at the University of Southern California, Los Angeles.

As Mason, who has made a

study of coarse language, sees it, blurring it out occasionally may be healthy. "In some situations, say, when the child is fixing his wagon and hits his thumb, he could either hammer the wagon to pieces or swear to release the tension. Swearing can restore physical calm to the body and give a feeling of control."

Adults often misunderstand why children swear. Dr. Bernice Berk, psychologist at the Bank Street School for Children, said: "They may be verbalizing rather than acting out. When adults focus on the words and not the feeling, they may miss what has occurred. So instead of saying, 'Don't use such language,' try saying: 'Why are you so angry? There are a lot of different ways to tell me you're angry besides those words.'"

In many cases children are not swearing because they need relief. According to the experts, children are particularly attracted to swearing during two stages of development.

The first is the nursery-school years, when they are amused by words related to excretion. It is also then that they use sexual words without having any idea what they mean. Dr. Albert J. Solnit, director of the Child Study Center at Yale University, suggests when that happens that parents admonish: "That is not a nice word and I would rather you didn't say it. If you want to know what it means I'll tell you."

The second stage is early adolescence, when the use of coarse language has different purposes. Dr. Sheldon M. Frank, a psychiatrist with a practice in Scarsdale who is clinical associate professor of psychiatry at the State University of New York's Downstate Medical Center, said: "Then it is part of the peer culture. Profanity makes boys feel that they have a tough-guy image and gets rid of any hint of homosexuality in their eyes. It also gives an aggressive tinge that allows boys to show some interest in girls while keeping a certain emotional distance."

Joan Bondy, president of the Parent-Teacher Association of Public School 59 in Manhattan, was taken aback when her older son, Joseph, now 14 years old, began to swear three years ago.

"Initially I objected, but then I realized I had used the same language and decided I couldn't continue to do that and reprimand him," she related.

"I allowed him to continue for a while because he was going through a great number of changes, including starting a new school. But finally I suggested that with his interest in vocabulary perhaps he and his friends might find other ways to rake one another over the coals without using foul words. Now they're very sophisticated and they use a lot of colorful language from Shakespeare."

### Lenny Skutnik: Fame Is a Suitcase of Letters

By Paul Hendrickson  
Washington Post Service

NEW ORLEANS — Some people are born to fame. Some people grow into it. Nowadays, when it's possible to make anyone in the United States a celebrity for 15 minutes, some people are famous just for being famous.

Nothing ever prepared Lenny Skutnik to be famous. At 28, he has a nervous smile and sad, deep eyes and a blocky body and a job running copy machines in the Congressional Budget Office. But poets find their poems, and heroes find their moments. For a single moment last Jan. 13, a man lived instantly in history. On a day when nature alone seemed in control, and a plane was sinking in the Potomac, Lenny Skutnik threw his coat to the ground and dove into the river and flailed desperately toward a woman whose eyes had rolled back in her head.

Instant Hero

Recently that same man came, with some ambivalence, to Louisiana to participate in something called the American Academy of Achievement. The program notes billed him as "a new and instantaneous American hero."

At the banquet, tuxedoed and beribboned like all the rest, Lenny Skutnik sat wedged between Brooke Shields and the conquering basketball coach of the North Carolina Tar Heels.

Down the dais were Dr. Edward Teller and the founder of Habitat for Humanity, and Rep. Gen. James Doolittle and Tom Landry and a 21-year-old hockey star.

In a way Lenny Skutnik was having none of it. "I know when all this is over I'm just going to be Lenny Skutnik again," he said. "It's about over now. Heroes don't think of themselves as heroes. That's just a word other people want to call them."

In the six months since the crash of Air Florida Flight 90, Lenny Skutnik has tried to remain Lenny Skutnik. He has neither left his wife nor announced he is being handled by International Creative Management.

In those first mad days, the president called him. A joint session of Congress stood and applauded him. One afternoon, he and his wife Linda sat and counted: The phone rang every 10 seconds. There has been the laying on of new watches, and trips in the private jets of governors and stints on "That's Incredible."

Lenny Skutnik is sitting in a room on the 19th floor of a New Orleans hotel. Down below, the Mississippi River glowers darkly to the Gulf. He clears his throat, tamps another Marlboro on a tabletop. He is trying to get this right. He is talking about a suitcase in the closet of a townhouse in Lorton, Va. There are 2,000 letters in that suitcase, carefully stowed.

"These letters are private. There are deep emotions in them. People wrote and told me they were jumping up and down in their living rooms in front of the television that day, crying, screaming, watching that girl drown, saying, 'Do something, do something.' So I was really acting for them, don't you see? That's what it boils down to. Some of these people told me they were terrified of expressing true feelings about anything. And what that day did was bring those true feelings right out of them. They cared for that girl as much as I did."

So an anonymous federal employee, a car-pooler on I-395, with two kids and a high-school education and an annual wage of \$14,000, leaps into the Potomac River because someone in front of him is dying. Then or now, he doesn't know any more than this why he did it: He was there. He was healthy. Someone was crying out.

And that night a secretary from ABC's "Nightline" show arrives in Lorton in a limousine (Lenny is still not home) to tell Linda Skutnik that 10 million people, also-

into minimum, are waiting to see her husband interviewed live by Ted Koppel.

"And you think they're bad, huh," Lenny Skutnik laughs savagely. "Channel 9, I call those folks die stuntmen movers. They come in, they move this here, they say 'Move that there.' They go right for the telephone. A network correspondent I won't name brought over. Priscilla's father-in-law and stuck him in front of me on the sofa. That poor man's tear ducts were out to here. They were just waiting for him to break down in my house in front of the cameras. I wanted to take that correspondent in the back room and beat the hell out of him. That's one thing this whole experience has done for me. I can speak up now."

Priscilla is Priscilla Tirado, the woman with the stricken eyes in a national TV consciousness. She couldn't grab the lifeline she got a human one instead. Now six months later, Priscilla Tirado is down in Florida with her family, still recuperating. On Jan. 13, Flight 90 was bringing her and her Spanish husband of two months to the United States to start a life together.

"I called her up just yesterday. It was basically, 'How are you doing, how are you coping?' She sounded far away. She's still kind of lost. I don't call her a lot. I don't want her to feel she owes me anything, because she doesn't. That would be just one more thing for her to get over."

Lenny Skutnik was going to pass up the 21st annual convening of the American Academy of Achievement. In the past weeks and months, Skutnik has turned down offers to see Hawaii and Canada and Puerto Rico.

But then he figured he had never been to New Orleans. Also, he was curious about Brooke Shields, who he supposed got chosen for reasons other than his own. Then, too, his mother and stepfather live in southern Mississippi and would be able to come over for the weekend to see him.

The American Academy of Achievement is a tax-exempt, non-profit organization that holds a "gathering of the greats" once a year in a different city. Honorees seem to get chosen for a variety of reasons: who's "hot," who's rich, who's beautiful. It's the watery line where destiny and timing converge to create fame, or at least the illusion of it. The aims of the Academy are to "inspire youth with new dreams of achievement in a world of boundless opportunity. To salute all men who give their best efforts to their daily tasks. To rekindle the ideals and principles that made America grow and prosper."

Said Wayne Reynolds, managing director of AAA: "Maybe Lenny Skutnik is not the chairman of ATT, maybe he's not a famous hockey player, he's just a little guy doing the best he can."

Said Madelyn Franklyn, Lenny Skutnik's mother: "I think God used him to show we could care."

Said Lenny Franklyn III, Lenny Skutnik's kid stepbrother: "Kids at school ask me, 'Why don't he take all that money?' 'Why don't he take all them trips?'"

Over in a photo gallery in the French Quarter, an old Louisiana black man sweeping the floor says, more to himself than to somebody who has ventured in: "The way I see it, living is an adventure. Surviving is an art."

#### Haydn Scores Found

The Associated Press

SYDNEY — Four original manuscripts of the string quartets, Opus 50, by the 18th-century composer Joseph Haydn have turned up in Australia. According to Australian press reports, the manuscripts, which belonged to the family of a Melbourne resident for about 200 years, have been authenticated by Dr. George Feder of the Joseph Haydn Institute in Cologne.



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Biology students at work in a college laboratory.

Chris Katsaros

Customers dock at Arab Shipbuilding and Repair Yard, commissioned in 1977.

## Herald Tribune

\*\*\* JULY, 1982

One of the many mosques throughout Bahrain.

Jürgen Schröder

## INDUSTRY

### Abundant Reserves of Natural Gas Lead to Creation of Regional Projects

In 1965, the Bahrain Petroleum Company, then the main employer on the island, sacked hundreds of Bahraini workers, thus setting off a series of student protests and riots that shook the country for three days.

The next year, according to the story, Prime Minister Khalifa bin Sulman al-Khalifa, with visions of unemployed workers and graduating students looming before him, decided after a trip to the United States and Japan that it was time to industrialize Bahrain. The task was left to the irascible Youssef Shirawi, who is now Bahrain's minister of industry and development. He borrowed an oil company engineer, Denis Jones, recruited a young teacher, Ha-Ahmed Qassim, now the commerce and agriculture minister, together the three, over the 12 months, ran through more than 200 ideas for suitable industries, both large and small, and came up with nothing.

May, 1967, Mr. Jones happened to sit next to a certain Mrs. Dale, a British banker, while he was attending a seminar in the United States. He mentioned that Bahrain was trying to find an industry and Mrs. Dale said she

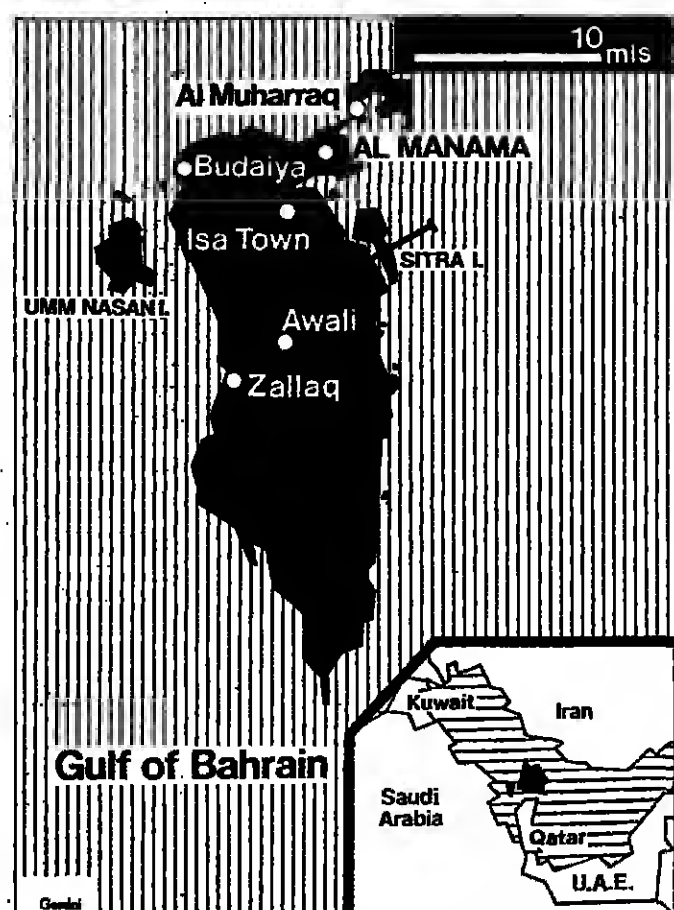
had heard in London about some aluminum users who wanted to go into the smelting business to assure their supplies. They were looking for an area that was politically stable with cheap energy supplies.

Mr. Jones called Youssef Shirawi. He packed his bags. And thus was born the Gulf's first native-owned industry, Alba (Aluminum Bahrain).

Mr. Shirawi says the decision to go into aluminum was made June 5, 1967 — "a date I remember very clearly, a date remarkable in the history of the Middle East — it also marked the start of the Arab-Israeli war of 1967."

Since then, Bahrain's wealthy neighbors, motivated by economic but also by the desire to prop up the poorest oil producer in the area, have decided to make Bahrain the site of several heavy industrial joint ventures. The Arab Shipbuilding and Repair Yard was born in 1977 and the Gulf Petrochemical Industries Company, the Arab Iron and Steel Company, the Heavy Oil Conversion Company and the Gulf Aluminium Rolling Mill Company are all in incubation.

Setting up regional heavy industry. (Continued on Page 115)



## OLD AND NEW

### Royal Family Strives for Balance Between Tradition and Modernity

THE GROVES of date palms are dying, the pearling shoals have been abandoned, the traditional villas are crumbling, almost all of old Bahrain is gone, but the ruling al-Khalifa family still governs the small island much as it has for the last 200 years.

As their world changes at an increasingly rapid rate, members of the royal family seem to realize that their authoritarian tribal rule cannot continue in its present form forever. But they are caught in a quandary — how to adapt to the modern world without causing the breakdown of their fragile society, how to allow wider participation in the political process without losing control completely, how to keep the peace without becoming a police state.

"We don't want to copy what Western Europe did," says Sheikh Khalifa bin Sulman bin Mohammed, the social affairs and labor minister. "We don't want to copy what Eastern Europe did either. Change must come from within. Our independence is only 11 years old. We want to just sit by ourselves and think what is best for us. Not to accept ideas imposed on us from outside."

Sitting where they are, of course, in the midst of the world's oil supply, means they are not going to be allowed to sit by themselves and think it all over at leisure. And Bahrain is just a microcosm of what is happening in the rest of the Gulf sheikhdoms, which survived the gales of Nasserism and Baathism in the 1950s and '60s and are huddling together today to survive the Khomeini hurricane.

The al-Khalifas, who are members of the Bani Utub tribe, which also includes the sheikhs of Kuwait, occupied Bahrain with their tribal allies in about 1780, taking over from Omani Arabs who were ruling it as part of the Persian Empire. Iranian claims to the island, which Radio Tehran continues to press, date back to this time.

The native islanders, who call themselves "Baharna," were peasants of Arab origin but of the Shia sect of Islam, the sect now made famous in the non-Moslem world by Ayatollah Khomeini. Although the question is never posed on a census, it is generally agreed that the Shia today constitute about 60 percent of the Bahraini population

with Bahraini citizenship. The other 40 percent, including the al-Khalifas, are Sunni. Foreigners, mostly from the Indian subcontinent, are about 30 percent of the total population and are politically, though not economically, insignificant.

Almost since the beginning of Islam, when the Sunni and Shia split over the question of a successor to the prophet, there has been dissension between the two groups. The Sunni candidate won, and the Shia feel they have been oppressed in the Arab world ever since. Historically, this has been quite true.

The religious philosophies of the two sects have developed along significantly different lines. The Sunni are essentially pragmatic. Salvation involves specific duties: fasting, prayer, alms, pilgrimage and confession of faith. The prophet and the way he did things 1,400 years ago are the guidelines for correct behavior.

The Shia are more mystical and their religion more dynamic. Learned religious men living in Qum, in Iran, the home of Ayatollah Khomeini, in Kerbala and Najaf in Iraq, as well as in Bahrain, are models for behavior. Shia religious leaders therefore always constitute a potential opposition to the regime. In Bahrain their religious meetings, called "ma'tam," have in the past been hives of political activity, and their yearly processions mourning the death of their contender to the caliphate at the hands of the Sunni give them an opportunity to chant slogans that can have anti-government connotations. The processions are banned in all of the Gulf sheikhdoms except Bahrain.

On arriving in Bahrain, the al-Khalifas, with the aid of their tribal allies, confiscated the land and set up a feudal estate system, whereby they exacted rent from the Shia peasants for the palm groves and taxed their dates. The system was administered through Shias living on the estates, who knew about palm cultivation, something the tribesmen did not. The peace was kept and tribal decisions enforced through "green field" Arabs — Sunni Arabs who have lost track of their tribal origins but whose loyalty lay with the al-Khalifas — and through foreign

(Continued on Page 125)

## LEAVING THE 'OIL CLUB'

### 50 Years After First Well Came In, Output Dwindles and Emphasis Changes

By Leslie Mitchell  
de Quillacq

BAHRAIN'S minister of development and industry, Youssef Shirawi, loves to say it: "We were the first ones in the club and we're the first ones getting out."

Bahrain was, indeed, the first oil-rich sheikhdom in the Gulf. The first oil well came in 50 years ago. But, as Mr. Shirawi says, the oil field is now "senile" and production is decreasing at about 5 percent a year, down from its peak of about 75,000 barrels a day nine years ago to 45,000 b/d today — small, compared to the neighbors. The field, according to Mr. Shirawi, will be dead in the year 2010.

In a way this has been lucky for Bahrain. It never found itself the recipient of the immense wealth that has showered upon its neighbors and, therefore, has never experienced the acute economic and social problems that followed. It has developed a skilled national labor force rather than a population of coupon-clippers, a tolerant society rather than one antagonistic to the foreigner, and a sophisticated infrastructure that is attracting investments from the other Gulf sheikhdoms — as well as from the industrialized world.

Already, the majority of Bahrain's oil revenues come from a supply of crude that it only mar-

ginally owns. Bahrain and Saudi Arabia split the production of the offshore Abu Safa field, although only a small bit of the field lies in Bahraini waters. Estimated income from that field last year was about \$360 million.

Bahrain has never really been in the crude-oil business anyway. The Bahrain Petroleum Company's (Bapco) refinery on Sitra Island was built in 1936 and is still one of the largest in the Gulf. It processes all the crude produced in Bahrain plus additional Saudi Arabian Light that is imported from Saudi Arabia through a 34-mile undersea pipeline that was built in 1945. In

says. If truth be told, he does not seem that upset. Bahrain is already well on its way to diversifying its economy away from oil — oil extraction accounted for only 18 percent of the gross national product in 1980.

The capacity of the refinery is about 250,000 b/d. In normal times Caltex, which is owned by Social and Texaco, imports to the refinery about 100,000 b/d through the Saudi pipeline, an amount that is part of its allocation as a shareholder in Aramco. Bahrain imports another 100,000 b/d through the pipeline that it buys at the official price from the Saudis. To this it adds its own diminishing production. The approximately 250,000 b/d of refined products that are produced are divided on the basis of how much crude each side puts in. The government sells back about 50 percent of its allocation, or about 75,000 b/d, to Caltex under a buy-back agreement that is gradually being phased out. The petroleum marketing unit in Mr. Shirawi's ministry markets what is for export and the Bahrain National Oil Company (Banaco) markets the approximately 6,000 b/d for local consumption.

The gas associated with Bahrain's domestic crude production is sent to the Bahrain National Gas Company (Banagas).

(Continued on Page 135)

### Basic Data

Area .....	255 square miles
Population (1980) .....	250,798
Capital .....	Manama (population 115,054)
Per capita income (1979) .....	\$5,800
Currency .....	375 fils = \$1 (1,000 fils = 1 Bahraini dinar)
Gross national product (1980, estimated) .....	\$2.35 billion
Exports (1980) .....	1.358 billion Bahraini dinars
Imports (1980) .....	1.313 billion Bahraini dinars
Total capital and reserves .....	282.7 million Bahraini dinars
National language .....	Arabic (English widely spoken)
Literacy .....	40 percent

## Gulf Hotel

### BAHRAIN

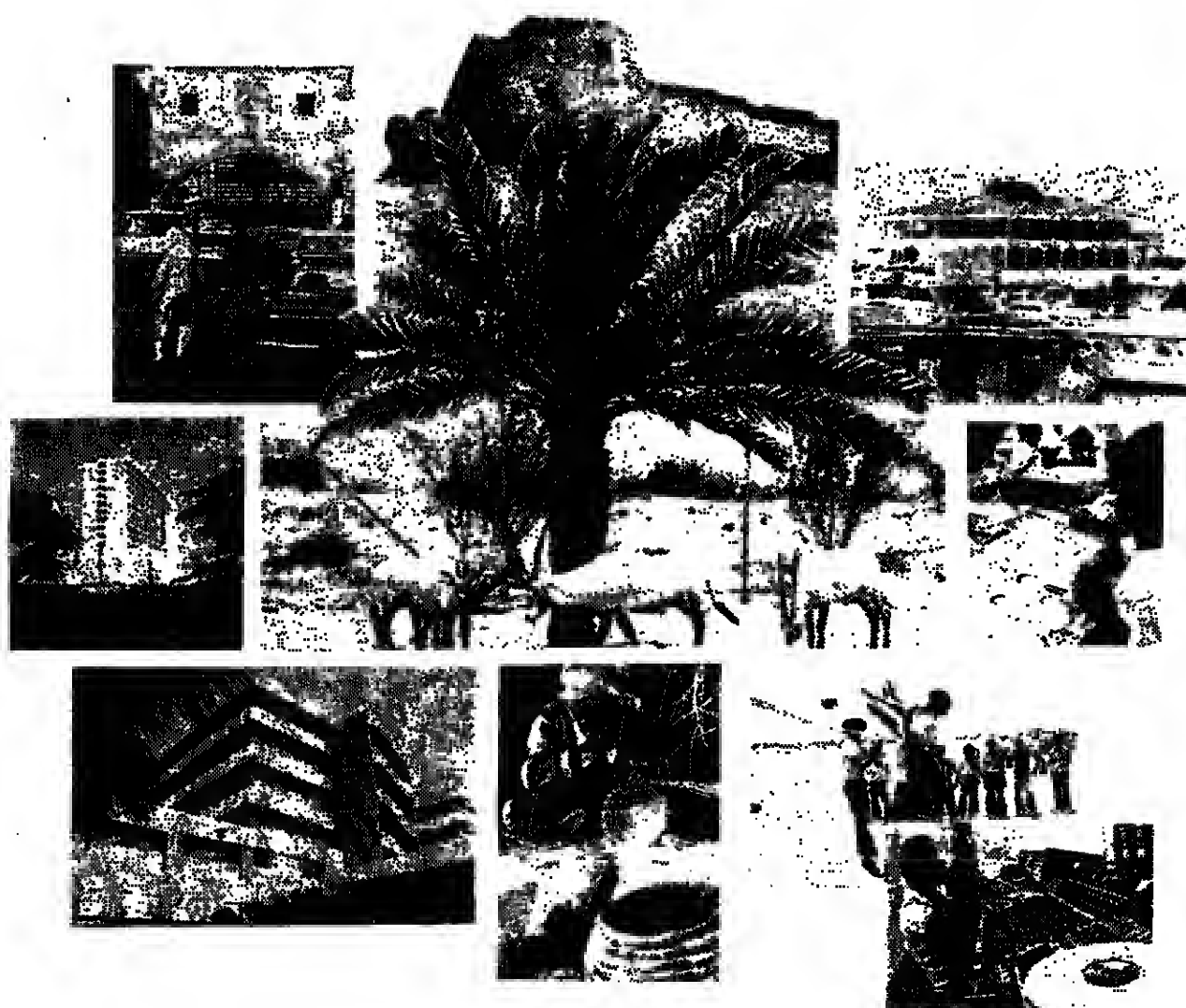
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**AIR COMMUNICATIONS:** 25 international airlines operate scheduled services through Bahrain. Bahrain is the administrative headquarters of Gulf Air which operates more than 200 domestic flights to other Gulf destinations.

**MODERN PORT FACILITIES:** The port facilities have been modernized and boosted to keep pace with the growing entrepot trade which Bahrain enjoys because of its unique central position in the Gulf.

Bahrain's modern Mina Sulman port has 14 general cargo berths and 2 container berths. Last year this port handled 840 ships.

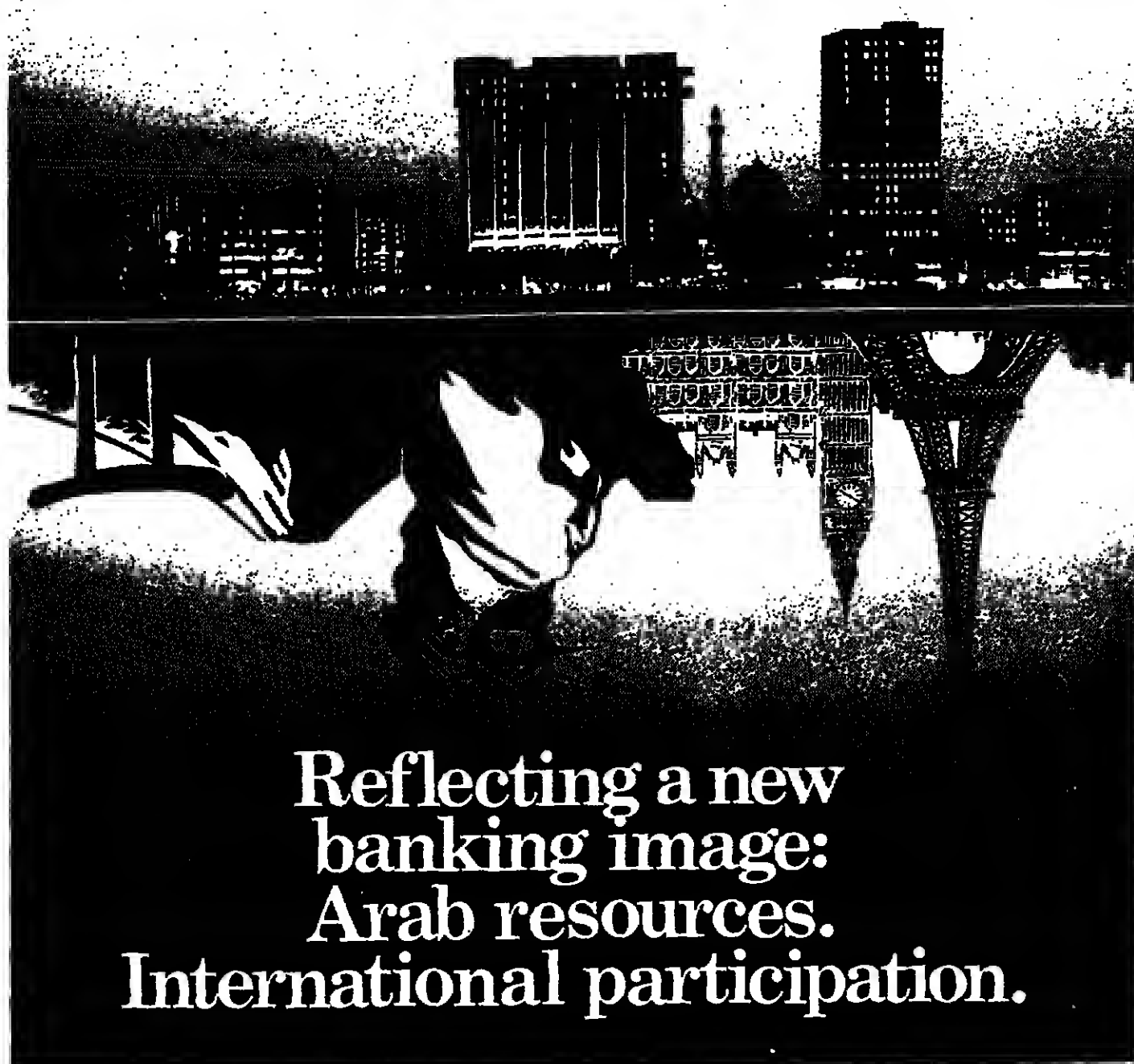
**PLEASANT SOCIAL ENVIRONMENT:** The relaxed, secure and friendly atmosphere of Bahrain is legendary and owes much to the island's long tradition of welcoming business visitors in its shores and its history of political and economic stability.



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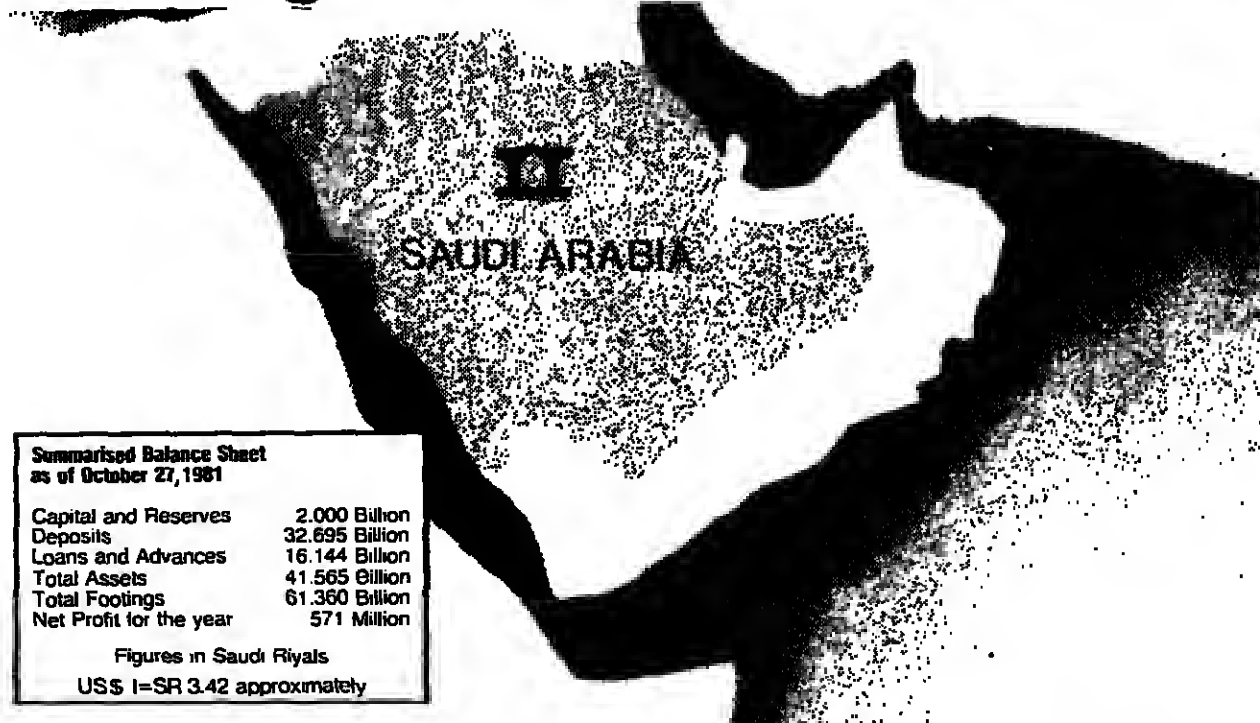


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Total Liabilities	61,360 Billion
Net Profit for the year	571 Million

Figures in Saudi Riyals  
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البحرين

## BAHRAIN

### FOILING THE PUNDITS

Diversification Is Paving the Way to Continued Economic Development

By Tim Owen

DESPITE the dismal forebodings of some Middle Eastern pundits during the last 20 years, the economy of Bahrain has not declined as the economies of its neighbors prospered.

Their forecasts were based on the diminishing output of Bahrain's one small onshore oil field, the withdrawal of the British armed forces and political presence on the island in the early 1970s and a steady decline in its export trade as the other Gulf states developed their own deepwater ports.

What has been the secret of Bahrain's success? The answer lies in the fact that Bahrain has always managed to be one move ahead of its neighbors in the development of its economy. This can be traced to the early 1920s, when a young Briton named Belgrave, recently demobilized from the army after World War I, applied for and obtained the post of adviser to the Emir.

During the next decade, before the development of Bahrain's oil exports and the construction of its oil refinery, the second largest in the Gulf, the administrative infrastructure of the island was established, along with a health service, a modern educational system and a highly efficient police force.

**Skilled Work Force**

The modern educational system, along with the development of the oil industry, produced a skilled indigenous work force, unique among the Gulf states, which served Bahrain well in later years in the diversification of its economy and the development of industry without recourse to the large-scale importation of foreign labor. As a result, apart from Oman, Bahrain is alone in having an indigenous population that exceeds the number of immigrants. This relieves Bahrain of a potential future internal problem that faces the other Gulf states and contributes toward political stability, a necessary ingredient of a steady economic advancement.

Fully aware of the potentially dismal economic outlook, the Bahrainis in the 1960s decided to press ahead with the diversification of their economy. The first major project was the construction of an aluminum smelter named Alba, which came into partial production in 1968 and full production in 1974. The bauxite is imported from Australia and power is supplied by Bahrain's natural gas resources.

The profitability of this enterprise has varied according to the fluctuations of the world price of aluminum. When there was talk of the Saudis constructing an aluminum smelter in

their Eastern Province as part of their industrial development plan, the Bahrainis astutely brought the Saudis into a 20-percent ownership of Alba through the Saudi Arabian Basic Industries Corporation (Sabic), thereby disposing of a potential competitor. Now, Bahrain has secondary industries based on the smelter in the form of Bahrain atomizers (jointly owned by the state and Breton of West Germany), the Balco aluminum extrusion plant (state-owned) and M.E. Aluminum Cable Ltd., at present undergoing an expansion program.

Alba, which is aiming to boost production to 170,000 tons a year by the end of 1982, exports to Saudi Arabia, Kuwait, Jordan and to several Asian countries.

**Dock Project**

Another major project has been the construction for the Organization of Arab Petroleum Exporting Countries of a huge graving dock on a spit of land off the north of Bahrain by Hyundai of South Korea and Limavet of Portugal. The first ship was docked in 1977 and during the first year of operations 130 ships were repaired. It is capable of handling 500,000-dwt tankers. The dock has been run consistently at a loss, but the financial loss is borne by OPEC while Bahrain gets employment and skilled training for its labor force.

Not all projects have been successful. The fishing industry suffered a major blow in 1979 when the Bahrain Fishing Company (jointly owned by the state and the Ross Group of Britain) was forced to close down as the stocks of shrimp upon which it relied for processing suddenly vanished without apparent explanation.

A light industrial area has been established for some years in the Mina Sulman port area, where soft drinks, plastics, aluminum products, wood products and dairy and poultry products are manufactured. Further development of light industries is being aided by a loan by the Arab Fund for Arab Economic Development.

The latest major project, which has attracted world attention, is the construction of a causeway connecting Bahrain with Saudi Arabia across the shallow stretch of water separating the two countries. This project is being entirely financed by Saudi Arabia, and the construction contract was won by the Dutch-led consortium consisting of the Ballast Nedam group, Bandar Corporation of Riyadh and Japan's Mitsubishi Corporation. There is considerable speculation over the long-term effects of the causeway on the economy of Bahrain, but in the short term it is bound to be of benefit.

The government of Bahrain has had considerable success in establishing the island service center for the Gulf. With the international airport in the Gulf, it has become an important center for air transport, Cable and Wireless established Bahrain telecommunications center of the Gulf, policy of encouraging offshore banking has been so successful that recently a month's moratorium was imposed on the issue of new ones. Bahrain has long been center for major merchant houses operating in the Gulf.

A particularly welcome boost to the economy has come in the decision of the Gulf Cooperation Council to give Bahrain and Oman priority in the development of Gulf industries. For internal political reasons, Kuwait has aided against developing major industries in its own territory but is fully prepared to help in the development of industry in Bahrain, its skilled labor force. One such example is methanol and ammonia plant being built by the Gulf Petrochemical Industries Company and jointly financed by Bahrain, Kuwait, Saudi Arabia. Others are the aluminum mill owned by the Gulf-financed Gulf Aluminum Rolling Mill Company and the iron and steel plant of the Arab Iron and Steel Company.

Yousef Shirawi, minister of development and industry in Bahrain, said in London recently that in connection with its policy of giving priority to Oman and Bahrain in the development of industry as part of its overall policy of economic integration in the region, it has agreed that Bahrain should concentrate on the promotion of small industries geared export as well as domestic consumption.

There have been for many years varying degrees of tension between the Sunni Muslim ruling community and the Shia majority, shadow cast by the Khomeni regime across the waters has tended to exacerbate this.

The diminishing output of oil and the fall in world prices are also causing economic headaches.

Nevertheless, Bahrain has maintained a remarkable degree of stability over the years and the considerable extent of cooperation between a politically aware ruling family and economically astute merchant class has underpinned this stability and insured a planned policy of economic advancement, diversification of its industry. The current economic situation is sound and subject to regional stability in the Gulf area, and there is reason to believe that the economy will continue to flourish.

## THE SHEIKHS' NIGHTMARE

Attempted Coup Points Up Uneasiness Between Two Branches of Islam

THE COUP d'etat that a number of Iranian-trained youths planned to spring in Bahrain last December was the nightmare — almost come true — that every Gulf sheikh has been having since the outbreak of the Iranian revolution.

For an outsider, it is hard to believe that the fate of this island state with a population of 360,000 can be that important, but to many in the area, including a number of Western diplomats, Bahrain has become the front line in the struggle to protect the so-called "free world." The worst-case scenario — based on the classic domino theory — is that if Bahrain's conservative tribal regime falls, the other similar regimes in the Gulf tumble, too, thus causing a cutoff in oil supplies to the West and dire consequences to Western economies.

Whether the affair was that significant is moot, but it brings into sharp focus the problem that the Gulf sheikhdoms, including Saudi Arabia, have been facing since the beginning of the troubles in Iran: All the Gulf states have Shia populations, groups that belong to the sect of Islam whose most notable leader at the moment is Ayatollah Ruhollah Khomeini.

**A Shia Majority**

In Bahrain, however, the Shias are not a minority of the population, as they are in the rest of the states, but the majority, about 60 percent of the population holding Bahraini citizenship. In addition, they were the original inhabitants of Bahrain and have always tended to see the ruling family and its tribal allies, all members of the Sunni sect of Islam, as invaders.

According to the official report of the attempted coup, six young men, on their way to Bahrain in mid-December, were stopped by immigration authorities at the passport control in Dubai airport when a sharp-eyed official noticed that something was wrong with the stamps in their passports. The Bahraini authorities were notified and the young men were arrested when their plane landed in Bahrain. Interrogation of the suspects revealed an Iranian-backed plot that led to the arrest of many others, including a relative of the financial adviser to the prime minister of Bahrain, and the discovery of weapons and some Bahraini police uniforms, but with buttons stamped "Made in Tehran."

The authorities say the plotters, calling themselves the Islamic Front for the Liberation of Bahrain, had been trained in Iran as terrorists and were being infiltrated back into Bahrain to topple the government. Their plan was for some of them to dress as policemen on Na'ool Day, Dec. 16, and to pick off as many security men as possible, to take hostages or kill key members of the government — essentially members of the royal al-Khalifa family — and then to move to key places like the radio and television stations to call for a general uprising.

Hadi Modarresi, a Shia religious teacher who had taken refuge in Bahrain during the rule of the shah but who now specializes in broadcasts against the al-Khalifa family on Radio Tehran, was to have returned to become head of an

Islamic republic. The Bahraini regime was panicked by the close call.

A high government official estimates that 25 percent of the Bahraini population is related by blood, education or friendship to the 73 youths picked up as part of the plot. This does not take into account the scores of others — some say hundreds, others, exaggerating, say thousands — that have been deported since the beginning of the Iranian revolution or that are being held in jail under a national security decree that allows the authorities to hold someone for three years, renewable, without trial.

The incident unnerved the other Gulf states as well. All of the 73 arrested were Shias, many of them students from the middle class recruited while studying in universities abroad. Most were Bahrainis but there were 12 Saudis, a Kuwaiti and an Omani in the group.

Bahrain's minister of information, Tariq Almoayed, said that as a result of the discovery of the plot, arrests were made in other Gulf states. The Saudi interior minister, Prince Nayef ibn Abdul Aziz, said soon after the arrests that his government had evidence that it was among those targeted by the front, Saudi Arabia, he said, will "do everything in its power, including sending security forces, to help Bahrain or any other Gulf state, if the need arises."

Since the plot was discovered, Bahrain and all the members of the Gulf Cooperation Council, except Kuwait, have signed bilateral security agreements with Saudi Arabia. The council is made up of Bahrain, Saudi Arabia, Kuwait, the United Arab Emirates, Qatar and Oman.

It seems highly unlikely that such a plot would rouse the support of the majority of Bahrain's Shia community, who, although they may grumble about the Sunni regime, have benefited economically and especially under the rule of the al-Khalifa, which even the opposition based in Beirut says is relatively benign. "They want to be benign," says a long-time resident. "But they have these problems."

The secret trial of the 73 youths, whose average age, according to the government, is 20, began on March 13 in a small village 12 miles south of Manama, Bahrain's capital city. Although most villages in Bahrain are Shia, this one happens to be Sunni, inhabited by a tribe with close ties to the royal family. The three-man court was

headed by a member of the royal family, Sheikh Khalifa bin Mohammed al-Khalifa. The charges against the youths were never clear because of the secrecy surrounding the episode, but they apparently involved membership in an illegal organization, illegal possession of firearms and explosives and anti-state activity in the service of a foreign power.

Most of the defense lawyers were appointed by the government although, the government says, the defendants were free to choose — and pay for — their own lawyers. One defendant did that, choosing a member of the royal family as his attorney. But the sheikh, a man reputed to have a profound sense of justice, backed out after the first hearing. Obviously, he would have been open to criticism from all sides if he had remained. The other defense lawyers apparently did not

have the option to retire — they were threatened with the loss of their licenses to practice if they backed out.

Apparently, one of the reasons the Bahraini government decided to hold the trial in secret was to avoid giving the youths a forum that could turn them into heroes. Information Minister Almoayed said the killers of Egyptian President Anwar Sadat became heroes when their trial was held in "international limelight."

On April 5, after three hearings, the prosecution rested its case, which, according to local press reports, was based on statements of the accused to the police, confessions from the investigating judges and books published in Tehran according to unconfirmed reports the defense lawyers' request impartial medical examination of the defendants to determine if confessions had been coerced.

The regime was obviously in a quandary on the question of sentencing, since light sentences would only encourage a similar incident and the death penalty might well cause significant problems with the Shia population.

Although many foreigners believe that at least a few of the youths would be sentenced to death, al-Bahraini did not. On May 22, government issued a short statement saying that three of the defendants, including the relative of the financial adviser to the prime minister, had been sentenced to life in prison and the rest to sentences of seven to 15 years.

The Shias in Bahrain tend to play down the importance of the coup attempt, although among them there was a wave of sympathy for the royal family. "When I was a student, we were shouting against the British," said a Shia journalist. "We were shouting. It's the same for you people today, shouting against everything."

The Sunnis take a less tolerant view. A high-level foreigner said: "This is a very small country." (Continued on Following Page)



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مركز الأخبار



# INDUSTRY Reserves of Natural Gas Spur Regional Projects

(Continued from Page 95)

tries in Bahrain, also economic sense because Bahrain has substantial reserves of natural gas that the government is trying to subsidize to industrial use. It is a feedstock, such as petrochemicals or as fuel, such as aluminum and steel mills. But it is also a political sense because Bahrain, alone among the small Gulf sheikhdoms, has the trained manpower to run industries without having to resort to large imports of foreign labor, imports that, in the other Gulf states, with the exception of Saudi Arabia, have made nationals a minority in the work force.

**Tailored education**  
Industrialization was first perceived by Bahrain as a way of employing its own people. And with 3,000 to 4,000 school-leavers and graduates being set on the labor market each year, with an already bloated civil service, Bahrain must try to keep up with finding something productive for them to do. The Bahraini educational system is being tailored to make sure that graduates meet the requirements of the Bahraini economy and are not just liberal arts oriented.

This all means that another factor, persuading neighboring states to invest in Bahrain, is the desire to undergo financial liberalization. The al-Khalifa regime, which rules over an uneasy domain where members of the Shia religious sect are the majority. The al-Sabah family of Kuwait and the al-Saud of Saudi Arabia are relatives of the al-Khalifa, and it is probably no coincidence that most of these joint ventures were announced after the Iranian revolution and are heavily subsidized by Kuwait and Saudi Arabia. Ayatollah Khomeini is a Shia leader.

The Bahraini government began its aluminum venture with a shareholding of 75 percent, most of the other shareholders being a consortium of others. This rose to 77.9 percent in 1976, when a depressed market drove several shareholders to drop out. Aluminum is especially sensitive to a recession because its major uses are in construction and automobiles, the first sectors hit in an economic downturn.

By 1978 the company was looking like a financial success, with sales revenue of \$137.5 million and profit of \$12.5 million. The next year the Saudi government announced that it was postponing its plans to build a 250,000-ton smelter at Jubail and was instead buying 20 percent of Alcoa from the Bahraini government. The decision was made to expand the smelter to 120,000 tons a year to 170,000 tons. Over the next three years the Saudis and the Bahrainis made profits of about \$115 million on sales of their share in the production. The two other shareholders, Kaiser Aluminum, 17 percent, and Bristol Investments, 5.1 percent, market their share in the production separately.

**Pragmatic Stockpiling**  
When the aluminum market was depressed in the mid-1970s, Bahrain stockpiled rather than sell at a loss, his paid off handsomely as the world recession eased and Bahraini stocks to sell in a rising market. The market was buoyant until 1981, when it took a downturn. Bahrain and Saudi Arabia, though their marketing arm, Bak, started stockpiling again.

According to press reports, which are difficult to confirm, there are now 80,000 tons stockpiled, although this is somewhat down from the first of the year. Bahrain's general manager, Sandy I. Ross, McDonald, predicts that 1982 will see a "substantial loss across the board as a whole." First-quarter losses amounted to \$3.9 million, according to unconfirmed reports.

The prior problem at the moment, according to Balco, is that large producers, hit by the world recession, are cutting back smelting operations, curtailing production in their own downstream industries that use aluminum and emptying their aluminum inventories into world markets, mostly in the Far East, which is Balco's second major market.



Youssef Shirawi

According to a trade magazine, however, it is Balco that is dumping into Japan. Balco, whose production is a significant percentage of spot-market supplies, denies this.

Be that as it may, whatever the ups and downs of the aluminum business now, the Gulf producers are in a privileged position for the future as fuel prices in the industrialized nations make smelting prohibitively expensive. The Gulf Organization for Industrial Consulting, a project-coordinating group, wants to see smelting capacity in the Gulf triple by 1995. There is now one other smelter in the Gulf, Dubai in Dubai, with a capacity of about 160,000 tons a year.

### Seeking a Remedy

So far, there has been no coordination between the two Gulf producers. In fact, Dubai wooed away Alcoa's general manager, thus creating some bad feeling. But Mr. Shirawi is hoping that the Gulf Cooperation Council, formed by the Gulf states last May, will remedy this. He foresees the day when the GCC will collectively negotiate with the OECD for the entry of its products into markets now dominated and protected by the industrialized world. The EEC, for example, imposes a 6.9-percent tariff on outside aluminum.

Mr. Shirawi said that two or three years ago Bahraini representatives went to the EEC in Brussels to talk about tariff matters. "Nobody was ready to talk to us," he said. "And they were right. We were so small." But now that the GCC has been formed, things will change, he believes. "We are now preparing ourselves. We have informed the OECD that we will come some time."

So far, Alcoa has three downstream, essentially captive, customers: the Bahrain Aluminum Extrusion Company, which is wholly government-owned and exports most of its 4,000 tons of production to neighboring Gulf states; Bahrain Atomizer International, a joint venture between the Bahraini government and West Germany's Eckhard-Werke, which manufactures and exports powder for paints, inks and explosives; and Midal, a private venture manufacturing rods and cables, largely for export to Saudi Arabia.

Plans are under way for the construction of a fourth Alcoa customer: the Gulf Aluminum Rolling Mill, a joint venture owned by Saudi Arabia, Kuwait, Iraq and Bahrain, each with 20 percent, and Qatar and Oman, each with 10 percent. Only the United Arab Emirates, of all the members of the Gulf Organization for Industrial Consulting, declined to participate, something that may have been influenced by its desire to locate a mill next to its smelter rather than next to Bahrain's.

With the soaring prices of feedstock since then, however, the picture has changed.

In September, 1979, Kuwait and Bahrain formed the Bahraini-Kuwaiti Petrochemical Industries Company, which on May 20, 1980, was renamed the Gulf Petrochemicals Company when Saudi Arabia joined the venture, in which all three are now co-equals. Snamprogetti signed an \$80-million contract Feb. 25 as the main contractor for the plant, which within 33 months is to produce 1,000 tons of ammonia a day and the same amount of methanol. The site, 600,000 square meters on Sitra Island, is so huge that one can safely assume, a company spokesman said, that the company plans to expand the project into further downstream industries.

Mr. Shirawi is confident that the Gulf countries can now force themselves into international markets by negotiating through the Gulf Cooperation Council. "This is part of regional integration," he asserts. "You tell me how I can sell 300,000 tons of ammonia when I am on my own."

Bahrain's latest project on the scene, the Arab Iron and Steel Company, is a mostly private joint venture that is geared to sell into the regional market rather than the international one. Shareholders are the Kuwaiti Foreign Trading, Contracting and Investment Company, an investment arm of the Kuwait government that includes private interests; the government of Iraq; the Baghdad-based Arab Industrial Investment Company; the Arab Mining Company of Amman, which is a pan-Arab venture, and Bahrain's General Organization for Social Insurance, as well as a number of individuals. The shares are already being traded on the highly speculative Gulf market that is mainly centered in Kuwait. As a Bahraini put it recently: "If the Kuwaitis think it will make money, it will make money."

The company signed a lump-sum \$221-million contract on Oct. 2, 1981, with Kobe Steel for the main plant and jetty. The planned output of 4 million tons a year of iron pellets is destined for the regional market, where there are already two obvious customers — Qatar's and Saudi Arabia's steel reduction mills. Arab Iron and Steel is already investigating the possibility of going into the steel reduction business itself. According to the general manager, Omar Grine, an Algerian, demand for steel in the Gulf in 1990 will be about 16 million tons, leaving plenty of room for growth in the area to fill this.

The least-mature joint venture at the moment is the Heavy Oil Conversion Company, a joint venture of Saudi Arabia, Kuwait and Bahrain, which is studying the possibility of building an 80,000-barrel-per-day hydrocracker next to Awali to turn heavy fuel oil into lighter products. The company is now considering bids from consultants for a feasibility study of the project, which could prove very expensive, depending on the extent of hydrocracking that is selected. The causeway that will link Bahrain to Saudi Arabia should have some economic benefits for Bahrain-based industry, but so far it seems that the effects have not been calculated. The decision to build the road was a political one, made by Saudi Arabia's King Faisal in the early 1970s, not an economic one. Most Bahraini officials and businessmen talk about how much cheaper fruits and vegetables will be for Bahrain when the road is finished, not about the opportunities for Bahraini heavy industry. But since the Gulf Aluminum Rolling Mill's market as well as the steel pelletizing project's market is to be in the Middle East, the causeway should lower transportation costs to the market place.

The causeway project is estimated at \$1.2 billion. Bandar Ballast International, a consortium led by the Duteb company Ballast Nedam, has been awarded the main contract for \$564 million. The road includes 25 kilometers of embankments, causeway and bridges.

When Mr. Shirawi and his team back in 1966 were looking for industries, they discarded petrochemicals, ammonia and fertilizer because even though the feedstock gas could be provided cheaply, the market was dominated by the industrialized countries, whose mammoth projects were reducing unit costs to a fraction of what Bahrain could produce at the time.

With the soaring prices of feedstock since then, however, the picture has changed.

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## Another year of record achievements

Statement of Condition at 31st December 1981

	NOTE	1981 BD'000	1980 BD'000
<b>ASSETS</b>			
Cash and Due From Banks		16,762	10,175
Reserve Deposited with Bahrain Monetary Agency		5,562	7,072
Time Deposits — Banks		176,662	124,031
Loans, Advances and Overdrafts	2	158,237	130,099
Other Assets	3	10,222	5,462
		367,445	276,839
Investments	4	17,430	15,971
Fixed Assets	5	5,205	4,522
<b>TOTAL ASSETS</b>		390,080	297,332
<b>LIABILITIES</b>			
Current, Saving and Other Demand Accounts		67,604	53,749
Due to Banks on Current Account		7,749	4,334
Time Deposits — Banks		98,890	91,927
— Non-Banks		164,844	120,612
Directors' Remuneration (Subject to Shareholders' Approval)		59	42
Dividend Proposed (Subject to Shareholders' Approval)		1,400	720
Other Liabilities		12,500	5,943
<b>TOTAL LIABILITIES</b>		353,046	277,327
<b>SHAREHOLDERS' EQUITY</b>			
Share Capital	6	14,000	8,000
Reserves	7	23,034	12,005
<b>TOTAL SHAREHOLDERS' EQUITY</b>		37,034	20,005
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		390,080	297,332

Over the last 25 years we have consolidated our position in both regional and international markets. Today we continue to arrange and lead management various syndications by identifying opportunities and employing specialised skills.

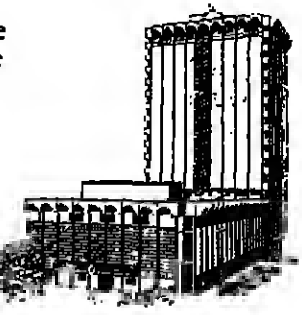
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A 17th Century silver "Khanjar" — the traditional dagger worn as a sign of bravery. From the private collection of Mr. Rashid Al-Oraifi.

## THE SHEIKHS' NIGHTMARE

(Continued from Preceding Page)

was a very large hit squad. I am told that the plans were detailed, that the excellent arms available were sufficient, that the police uniforms were such as to take people by surprise and could have wiped out their leadership like that. In a little while like this the effect could be appalling. Would the foreign baks go home? If so, you have cut unemployment. Would they blow up the refinery? This is a town, is it not a nation?

"At the very least, had that plot succeeded, there would have been the worst kind of bad blood within this society for generations. This thing, even though it failed to come off, has given impetus to Shia-Sunni mutual suspicions. This is an unhappy thing. How much worse would it have been had blood been shed?"

The suspicions between the two groups had been dormant for years as education and mutual interests eroded their differences. But the Iranian revolution awakened ill feelings. Who started what is a subject of debate between the two communities.

The Shia community, which looms to religious leaders in Qum in Iran and in Karbala and Najaf in Iraq for guidance, was energized by the revolution, the young especially so. Khomeini T-shirts were quite the mode at one time.

In 1979, there were demonstrations in support of Ayatollah Khomeini. The Shias say the regime overreacted. Los of tear gas was expended and bits of arrests were made, how many no one knows.

After two Shias died in jail — the authorities reportedly told the Shia community that both deaths were caused by heart attacks — urban Shia and Sunni "liberals" formed a joint mediating committee to make recommendations to the government on ways to avoid mutual Shia-Sunni recriminations. The recommendations were ignored.

A Shia committee member said: "Definitely, there was a kind of Shia movement. But they were not anti-Sunni as the government believes. They have not been treated the same by the government as the Sunni. They feel they are treated as a minority group when they are really the majority. It is a government-Shia conflict rather than a Sunni-Shia conflict. We have always told the government that it is high time they change their policy toward the Shia, to avoid what has happened. What has happened is only a byproduct of that feeling. Some Khomeini groups thought they could fish in those turbid waters."

According to him, there are no Shias in the military, in the police, in the Ministry of Education, in the municipality or in immigration or ports — all the ministries or departments that involve governing.

He concedes that there are radical elements in the Shia community, such as partisans of the illegal Iraqi Shia "al-Daawa" party, who are seeking to overthrow the regime. But the government, he says, is indiscriminately arresting Shias without any basis for believing they are a threat. It is as though

Sunnis were arrested to get at the Muslim brotherhood, he says.

A Sunni member of the committee agrees that the government should be listening more to the Shias and not treating their problem "in the police way." But, he adds, "These Shias are like children. They always feel that something should be done for them. They always blame others. I think the royal family, especially in the last 10 or 15 years, has done a lot of things for Bahrain. What do these villagers want? They want a theocratic state. This is not acceptable to educated Sunni or Shia."

Visitors returning to Bahrain after several years are, indeed, surprised at the improvements in the Shia villages. But the fact remains that most of what could be called poverty in this welfare state is to be found in those villages and it is there that the local religious leaders pull a lot of weight.

A former Shia politician says, "Shia are fanatic, and their fanaticism comes from their minority-group feeling. When they follow Khomeini, it is because of religion. You can't say they are following Iran. Iran has always been a Shia country. The Shia villagers are very anti-Persian. They cannot tolerate them. It was a degrading thing for a Shia here to give his daughter to a Persian. The Shia here are Arabs."

"Khomeini came as a religious man. They looked to him as a religious Shia. If Khomeini goes tomorrow, the whole picture will change." For the moment, however, both sides seem to agree that

Ayatollah Khomeini commands a significant following among the Shia in Bahrain.

The Sunnis see the problem as one of loyalty. The fact that Bahraini youths plotted with Iran against the government horrifies them more than the fact that the youths plotted against the government.

Information Minister Almoayed says, "This wasn't a plot against the government, this was a plot against Bahrain." A Sunni journalist says, "If you give your country away, you cannot get it back." His Shia colleague says, "We don't want to be Northern Ireland. We don't like to talk about the problem, to make it big, because we are living on an island. If you raise this problem, of course, you set neighbor against neighbor. How can we live? We will change our very simple society. This is no good for people on this small island."

The relatively light sentences of the Shia youths convicted of attempting the coup have eased the tensions between the two communities for the moment, but the Shia renaissance remains an unsettling element, more so now that Ayatollah Khomeini has in effect forced President Saddam Hussein of Iraq to concede.

If Saddam Hussein falls — as the ayatollah hopes — then the problem would be exacerbated because the Bahraini Shias really have more in common with the Iraqi Shias, who are Arabs, than with the Iranian Shias, who are not.

—L.M. de Q.

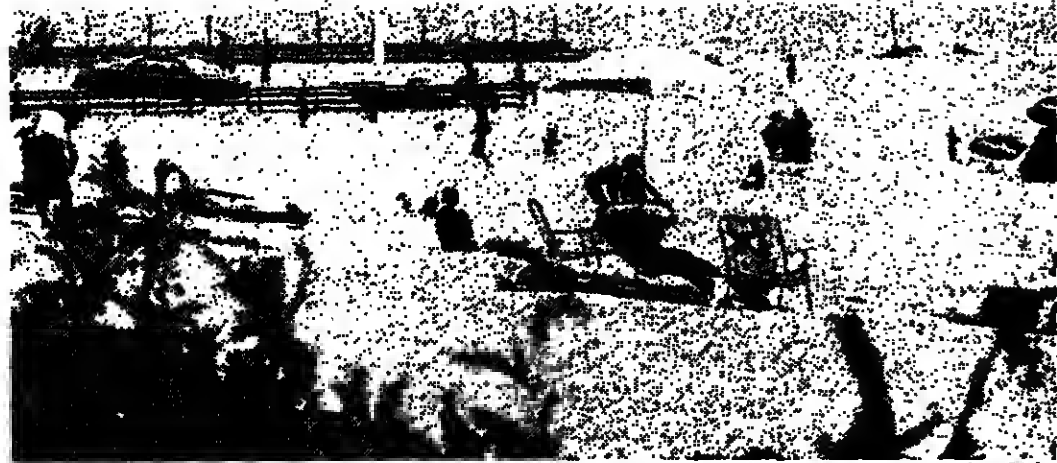
**LESLIE MITCHELL de QUILLACQ** is a free-lance writer who specializes in Gulf issues.

**TIM OWEN** is on the staff of the Middle East Association.

**SUSANNAH TARBUSH** is on the staff of Middle East Magazine.



# البحرين BAHRAIN



Bathers cool off at one of the numerous beaches in Bahrain.

## OLD AND NEW Royal Family Strives for a Balance Between Tradition and Modernity

(Continued from Page 9S)

Baluchi tribesmen who were also al-Khalifa minions.

The tribal council, the "majlis," made decisions on political and economic affairs without being bound by law, while religious courts controlled personal affairs such as divorce and marriage.

Mixed into this population of tribesmen and peasants were Arab Sunni merchants, who traced their ancestry in the Arabian peninsula but who came to Bahrain from southern Persia. Called the "Hawala," suggesting the process of returning to their Arabian origin, they tend to be the more progressive group in the island and encompass many of Bahrain's prominent families of today: the Fakhro, the Kanoo, the Almoayed, to name a few. Also in the mix were Shia Persian traders who, despite their religious affiliation with the native Baharnas, are in general bearded disliked by them.

The British consolidated the al-Khalifa rule in the 19th century through a series of treaties it forced on tribal rulers in the Gulf to stop intertribal warfare. The ruler who signed a treaty was in

effect legitimized on his bit of territory. Yousef Shirawi, the development and industry minister, says, "The British froze history in this area in 1810. If it were left to natural forces there would probably be one big kingdom here with a population of 12 million." To Mr. Shirawi, the Gulf Cooperation Council formed by the Gulf states last year is unfreezing this natural process.

Bahrain's tribal system of rule has remained much the same since the beginning, having survived even the administrative, legal and land reforms imposed by the British in the first half of the century. An al-Khalifa family council still decides who will hold the position of emir, crown prince and prime minister and other important government posts. Although government posts set aside for the al-Khalifas are distributed among the family on the basis of merit, the size of a royal family member's share in the privy purse depends on his proximity to the line of the emir.

At the moment, al-Khalifas are the ministers of defense, interior, foreign affairs, justice and Islamic

affairs, labor and social affairs and housing. The Ministry of Labor and Social Affairs has jurisdiction over labor issues as well as over sports and literary clubs, which have been to the Baharnas what political parties are in the West. The Housing Ministry is also a critical ministry as housing is a key issue in this welfare state. Control of these several portfolios means that the al-Khalifas still make all the important political decisions in Bahrain.

Non-royal Sunnis now hold portfolios in education, information, finance and development and industry.

The Shias, who in the past cultivated and administered the feudal estates and collected taxes on the dates, now hold positions in the administrative and technical ministries. Until recently, the finance minister was Shia. The Shia ministries now are public works, electricity and water, transport, commerce and agriculture and health.

The Sunnis, of tribal origin, who under the feudal system were the enforcement branch of the al-Khalifa regime, are now to be

## BANKING

By Susannah Tarbush

BAHRAIN'S role as a banking center has been remarkably little shaken by political events in the Gulf. Neither the war between Iran and Iraq nor the attempted coup last December seriously affected business confidence, and assets of the 65 offshore banking units have grown at a fast rate this year.

In 1981, offshore banking unit assets grew by 35 percent to reach \$50.7 billion. In the first three months of this year they grew by \$4.9 billion to reach \$55.6 billion, compared with growth of \$2.3 billion in the same period of 1981.

Nor does it seem as though the drop in oil revenues of the Gulf states will lead to a marked slowdown in business. Although it might be expected that, given its location, Bahrain would act as a major conduit for Gulf government oil surpluses, in practice much of its deposit base is non-governmental.

Local demand for loans is also likely to continue at a high level.

### Questions Raised

But even if politics and the oil situation have left Bahrain's banking sector unscathed, questions are being raised about its long-term future as the Gulf's banking center. For one thing, competition for Saudi business is growing from Saudi Arabia's own domestic banking system. Many Saudi deals have been carried out via Bahrain.

This year sees the completion of the "Saudi-ization" process started in 1976 by which all banks are at least 60 percent Saudi-owned.

The capital of Saudi Arabia's banks has increased rapidly, branches are proliferating throughout the kingdom and the

## Growth Continues, but Competition With Saudi Arabia Is Heating Up

banking system can offer an increasingly sophisticated range of services. It is becoming increasingly assertive.

Some resentment of Bahrain's offshore banking system was voiced by Saudi Arabia's finance and economy minister, Mohammed Abul-Khalil, at the recent Middle East Economic Digest banking conference, when he said, "One can have doubts about fostering the development of institutions designed to promote capital outflows."

### Absorptive Capacity

It was in 1975 that the offshore market was launched, and the drive started to turn Bahrain into a major money center. Among the attractions were a time zone between Europe and Singapore, a well-educated work force, proximity to the oil states and good telecommunications and air links. The number of OBUs grew rapidly and in 1979 a moratorium was imposed by the Bahrain Monetary Agency.

Early this year, the BMA announced a one-year moratorium on the formation of publicly owned OBUs. Explaining the move, the BMA governor, Abdullah Saif, pointed out that the board had already approved the incorporation of four institutions in public share issues this year and said this was enough, given Bahrain's liquidity and absorptive capacity.

The move followed the massive oversubscription by the public in the issue of 28 million \$1 shares by the Bahrain International Bank. The issue was more than 400 times oversubscribed.

Applications for shares were open to nationals of the Gulf Cooperation Council member states, with 20 percent reserved for Bahraini nationals. BIB's authorized capital is \$500 million. The \$152

million not issued to the public is coming from GCC members.

The public share issue for the Bahrain Kuwait Investment Company, the second of the four publicly owned OBUs approved for registration, was oversubscribed 348 times. Of the total paid-up capital of \$5 million Bahraini dinars, the 2.9-million-dinar public offering was made in citizens of Bahrain only. The third share issue approved is for the Bahrain Middle East Bank, which is going public. Its chairman is a former Kuwaiti finance minister, Abdul Rahman al-Azqi.

Considerable excitement has been aroused by the creation of the Arabian Investment Corporation (Investcorp), the fourth approved publicly owned institution. The Arab Monetary Fund financed a \$500,000 study into the setting up of the new company. As a former president of the AMF, Jawad Hashem, explained, the aim of Investcorp is to "end the haphazard investment by the many small private investment groups and institutions created by Arabs here and there," and to help develop Arab capital and financial markets.

Mr. Hashem emphasized that the AMF's role was limited to carrying out the study. Once the company was licensed "then it has nothing to do with us," he said. "We don't want the government touch in it; the private sector is very touchy about government interference."

Recently, the Gulf public was offered \$26 million in shares out of the initial issued capital of \$200 million. Total authorized capital is \$500 million. A wide range of Gulf institutional and individual investors supplied the founders' capital, includ-

ing ministers such as Saudi Oil Minister Sheikh Ahmed Zaki Yamani and members of ruling families.

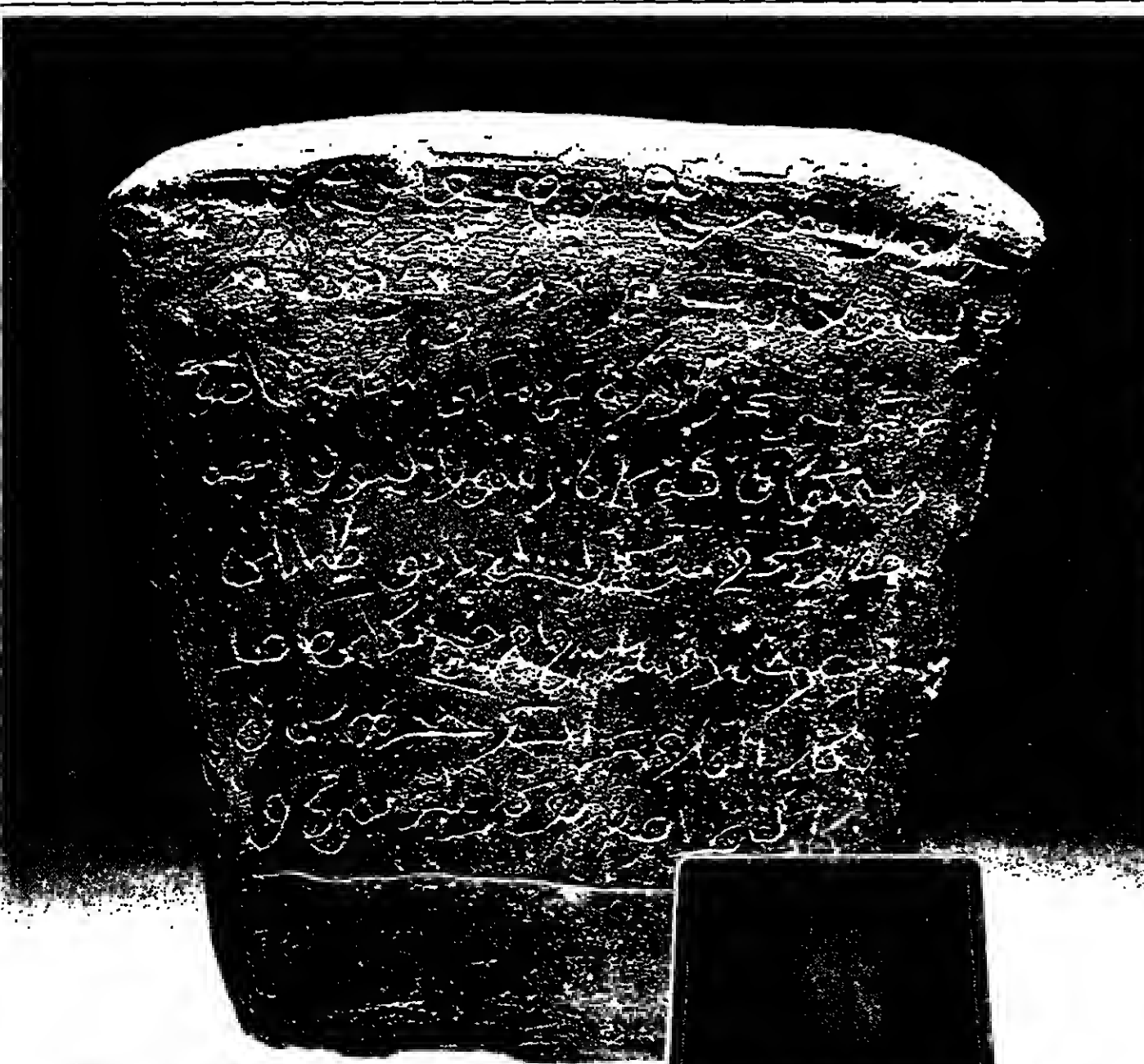
### Licenses Granted

It is emphasized that a moratorium applies to public issues of, and foreign banks are continuing to give OBU licenses. An OBU license was recently granted in Yapi and Kredbankasi — the first Turkish bank to enter the Bahraini market. Banco Itaú of Brazil and Banca Nazionale del Lavoro of Italy recently set up representative offices.

One of the features of the Bahraini banking scene that has attracted considerable attention in recent years has been the growing Japanese presence. The Bank of Tokyo opened a representative office in 1977 and began OBU activities in 1980. There are now 14 Japanese-related banks and five securities houses in Bahrain, although Bank of Tokyo is the only one to have set up an OBU. Its most recent bank in set up a representative office was the Industrial Bank of Japan.

The domestic banking scene, which consists of 20 banks, has been dominated by two local banks — the National Bank of Bahrain and the Bank of Bahrain and Kuwait. The latter's net income rose by 73 percent last year, while profits at NBB rose by 42 percent. Other locally owned banks are the Bahrain Islamic Bank and the Al Ahli Commercial Bank. Local banks receive considerable official encouragement in their participation in the public sector.

The authorized capital of BK is to be raised from 15 million dinars to 100 million dinars, and NBB has also announced an increase to 100 million dinars. Al Ahli has sought to double its paid-up capital to 8 million dinars.



## Methods may change, but man's desire to communicate remains the same.

Each of these techniques for passing on vital information is right for its own set of conditions, of place and time. But only the modern one is well enough suited to meet the demand for instant communication required to do business in the Arabian Gulf today.

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January, 1982

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البحرين

BAHRAIN

ROOM FOR MORE

Hotel Business Shows Sharp Growth As Stopover Traffic Soars Since 1979

Special to the IHT

OVER the past three years the total number of passengers arriving in Bahrain has risen sharply. In 1979, there were 404,052 arrivals against 1.6 million in 1981. The number of transit passengers (with and without 72-hour visas) increased substantially and accounted for a major share of this increase. The exact amount has not been calculated.

While the number of Arabic and non-Arabic businessmen dropped slightly in the three years in question, tourists from the Gulf and the rest of the Middle East, the United States and Europe totaled 150,048 in 1981, against 129,016 in 1979. Slightly more people arrived to work in Bahrain in 1981 — 91,530, against 90,993 for 1979, of whom 22,340 were Americans, Europeans, Australians and New Zealanders.

A total of 472,675 rooms was available annually on a per-night basis in 1981 among the top five hotels; occupancy averaged 59.17 percent, or 279,681 rooms/nights. And according to the Citibank Marketing Study 1982, end official government statistics, growth in market demand for 1982 is likely to be around 5 percent; total market demand, 218,275 guests, and total 1982 market supply, 86,200 rooms/nights in the top seven hotels. (Two deluxe hotels have been added since December, 1981.)

The increase in market supply for 1982 is estimated at 45,177 percent, or 213,525 rooms/nights, and anticipated average occupancy for these seven hotels is estimated at 42.8 percent, or 293,665 rooms/nights.

Bahrain is one of the few Gulf states able to offer a selection of hotel accommodations to suit most budgets. Today, the state has seven deluxe properties, 12 first-class and three second-class hotels, providing about 4,500 rooms. Of this, nearly 1,500 have been added in the last 18 months. While deluxe accommodation can cost about \$80 per night, it is possible to find a comfortable, clean room for less than \$50.

The deluxe categories are run by international management groups — Diplomat by Trusthouse Forte, Hilton, Holiday Inn, Ramada, the Regency Inter-Continental and

Sheraton. The Gulf Hotel offers a wide choice of accommodations between the original building and the newer Tower Block and holds the distinction of being the only deluxe hotel to be managed by a Bahraini national.

If average occupancies at 59 percent appear low, it must be said that most businessmen avoid traveling between May and September because of Bahrain's exceptionally hot and humid climate and the month-long Ramadan period.

While it is not always necessary to book, Bahrain's increasing emphasis as a financial and conference center means that occupancies at peak time can be very high.

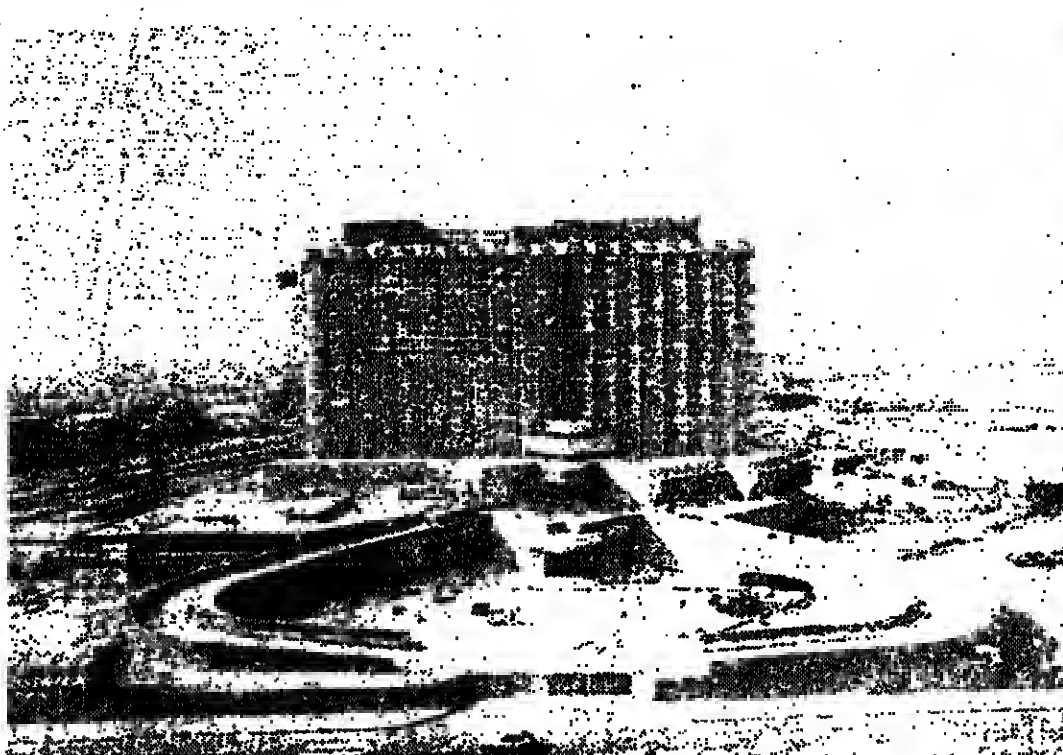
A sales director said: "In the early 1970s, there was no hotel industry in Bahrain. People used to ask whether one was necessary while the Bahrain Hilton was being built. But when it opened in late 1975, guests were being turned away."

In the wake of that, other hotel chains came in and, again, there was enough business for all. It seems that the more hotels being built, the more the traffic to Bahrain.

Various ambitious developments planned both for Bahrain and Saudi Arabia will certainly make it necessary for more executives to visit the state. With seven five-star hotels, such occupancy rates are remarkable. Moreover, every indication points to more people coming to Bahrain.

Today, hotel executives are emphasizing service as the major selling factor. In terms of international standard rooms, business and leisure facilities and entertainment there is little to choose between the top seven. Another key selling point is the increasingly excellent range of business services or special facilities that provide visitors with a comprehensive and efficient "office" — sometimes offered free of charge or for a nominal fee.

A growth sector is now the conference and exhibitions business. Bahrain is fully equipped to facilitate high-level conferences, and the space between the hotels and the Bahrain Exhibition Center can cater for some 5,000 delegates and even hold a number of conferences simultaneously. The two new hotels, Sheraton and Diplomat, have



The Sheraton (left) and the Hilton — two of the nation's seven luxury establishments that are enjoying the fruits of a decade of expansion.

opened extensive conference facilities, accommodating between them more than 1,000 delegates with self-contained suites and independent entrances.

Talking about the growth in tourist traffic through Bahrain, Minister of Information Tariq Al-muayyad explained that while the cost of air travel to Bahrain is still high, Cathay Pacific, Qantas and UTA have taken the lead by agreeing to his ministry's request to allow travelers from Europe to the Far East to stop over.

"I believe that the chance to stop over in Bahrain will be used and utilized well," he commented, "not just because the airlines have agreed but because for the first time hotels have agreed to special rates — slashing them by about 30 percent — for special traffic. Packages are now available to include a two-day or three-day stopover, including meals and sightseeing."

"I am especially happy to see a marked increase in the number of expatriates visiting Bahrain from other Gulf states," he added. "Hotels in Bahrain are holding special attractions, ranging from internationally known musicians, singers, theatrical productions to even ballet, and these are very popular."

The government, it seems, is committed to making Bahrain a more pleasant environment. In co-

operation with the municipality, more public gardens are being planned and additional beaches sought.

"This," the minister said, "will not only benefit those who live and work in Bahrain but, of course, provide a boost for the tourist trade. We are also restoring some of our historic buildings and preserving archaeological sites. Our budget for the next four years is more than six times that allocated in the past."

There are also plans to restore Manama's famous landmark — the Bab al-Bahrain.

Tourism-related projects are also being undertaken by the private sector. Part of the new marina complex is now open and is very

successful. It is expected to be fully completed in about three years.

In fact, Bahrain's tourism industry recently received a boost when the Holiday Inn owners — the Bahrain Tourism Company — sold land allocated for the hotel's own marina complex. The deal, reported to be in the region of \$27 million, will enable them to go ahead with a number of ambitious plans for the hotel and BTC. One could be the formation of a travel and tourism office to promote Bahrain, aimed initially at attracting visitors from neighboring states.

Al Areen, a wildlife preservation park, is expected to open to the public next year. "A few years ago," the minister noted, "the area

was nothing but a desert. Today, it is full of thriving trees, shrubs and, of course, animals. Already, special groups are being taken round but it takes time for people and animals to get used to one another. The central attraction is our herd of Arabian oryx. However, we expect people to combine a look at the restaurant, then go on to the beach, which is only 15-20 minutes' walk away."

Bahrain's international airport is served by more than 30 airlines, 13 of which have crew stopovers in Manama. A visitor's impression of a country invariably starts at its airport, and Bahrain's is well designed with excellent facilities. It has the capacity to handle more

people efficiently and has already won one award from an airline for getting the highest percentage of flights out on time.

Generally speaking, immigration is a swift and uncomplicated procedure although all but travelers holding valid passports from the United Kingdom, Saudi Arabia, Kuwait, Qatar, Oman and the United Arab Emirates require entry visas. However, holders of confirmed return or onward air tickets can obtain a transit visa, valid for 72 hours, from the airport immigration office.

There are usually about half a dozen flights a day from London's Heathrow, including the Gulf national carrier, Gulf Air. Flying dai-

ly from Gatwick, Cathay Pacific uses Bahrain as a stopover on its way to Hong Kong. There are also regular flights from Europe, with several flights a week from Athens. Bahrain has the Gulf's best links with Australia. A number of flights go from Singapore to Bahrain and there are several flights a week from Bangkok, Kuala Lumpur, Sri Lanka, Bombay, Hong Kong, Seoul and Karachi.

From other Middle East centers outside the Gulf, MEA runs an excellent link service via Beirut. There are several flights a week from Cairo and Amman and a regular service runs to and from Abu Dhabi, Dubai, Muscat, Sharjah, Doha, Dhahran, Riyadh, Jeddah and Kuwait.

THE OIL 'CLUB'

(Continued from Page 95)

owned 75 percent by the government and 25 percent each by Caltex and Apco, the investment arm of the Organization of Arab Petroleum Exporting Countries. Banagas franchises the gas to produce about 9,200 b/d of light naphtha, propane and butane for export. The tail gas left over is sent to Aluminimum Bahrain (Alba), the government joint-venture aluminum company, for fuel.

This year, however, "the world has decided to get along without us," says Don Hepburn, the chief executive of Bapco. Because of the depressed world economy, the consumption of refined products has plummeted. A refinery usually does not have the option to stockpile indefinitely because of the problem of storage space and so is forced to cut production when demand declines. But since most of the refinery costs are fixed, as refinery production is lowered the cost per barrel rises, severely cutting into the refinery's profits. Since in a slack market he cannot demand higher prices for his products, refinery runs at Bapco are now only about 165,000 b/d, down from 250,000 b/d last year. Of this, 45,000 is the Bahrain crude production and only about 120,000 is Saudi Arabian light.

Mr. Hepburn has been told to make \$1 million a month in savings at the refinery, which is now only breaking even. As the price of crude and, therefore, products firms up because of a large drop in Saudi Arabian crude production, losses on refined-product sales have stopped growing, but only an increase in consumption will pull the refinery out of their hole. "What will change consumption is that the Western economy will pick up," Mr. Hepburn says. "There is no evidence that things will get better in the near term."

But it is not just the near term that has been bothering Bahrain. What with several huge export refining projects in the works in Saudi Arabia and Kuwait, the specter looms of Gulf countries competing against each other in international markets.

A special committee of the Gulf Cooperation Council, to which the six Gulf sheikhdoms belong, is already dealing with the problem. The committee is working to set a price range for each product "so you don't hurt your partner," Mr. Shirawi says. "One is allowed to do whatever one likes within limits. There is a thin line between surrender of sovereignty and regional cooperation."

Widely Marketed

Historically, Bapco-refined products have been marketed widely because the refinery was originally built by Caltex as a "swing refinery" in order to provide products for Chevron (Socal's marketing arm) and Texaco markets in East Africa, Southeast Asia, China and Australia when local refined products ran short. For this reason, the Bapco refinery can

produce 75 to 80 different products, although about 52 percent of this is heavy fuel oil.

Marketing continues to be comprehensive. Both shareholders — Bahrain and Caltex — sell a "fair bit" to the Gulf. The advent last year of Abu Dhabi's 120,000-b/d refinery has dried up the market there, but Dubai still imports some Bapco products, as does Saudi Arabia when it is short itself. The bulk of the rest goes to Southeast Asia, India and Pakistan. All the naphtha goes to Japan.

Plans are afoot to convert the refinery's heavy fuel oil, which now sells for only about \$24 to \$26 a barrel, into lighter products that command higher prices. The Heavy Oil Conversion Company, with Bahrain a 40-percent shareholder and Saudi Arabia and Kuwait each with 30 percent, was formed in 1981 with a capital of \$2 million to undertake a feasibility study of the project.

Since the hydrocracking process that converts heavy oil is extremely expensive, the cost of such a project could run into billions of dollars. The first decision to be made will involve the extent of hydrocracking desired and the quantity the shareholders wish to process. The most commonly cited figure for the second is 80,000 b/d, which now is about the amount of heavy fuel oil the Bapco refinery produces when it is running at full capacity. But since capacity is not always 100 percent, Kuwait and Saudi Arabia will also have to provide fuel oil for processing. The initial feasibility study should be ready in December.

As crude oil production dwindles, Banagas has undertaken an intensive exploration program to make sure that there is really no more crude around, and has also just spent \$2 million studying the possibility of going into more sophisticated recovery methods.

Steam Injection

A study, done by Chevron, included an investigation of techniques involving the injection of steam, chemical solvents or carbon dioxide into the oil field. The costs of such techniques are extremely high, but Hassan Fakhro, the managing director and chairman of Banagas, says the decision to go ahead has already been made "in principle." "Regardless of how expensive the oil is, how much technology it requires to extract it, we are talking about producing it for much less than \$10 a barrel," he says. Banagas hopes to recover an additional 100 million to 200 million barrels of crude oil in this way over the next 10 to 15 years.

A \$15-million seismic survey of the offshore waters by Western Geophysical should be finished shortly, and Banagas will soon award a contract for an onshore seismic survey.

Offshore, Banagas is certainly not expecting to find the giant oil fields that mark the Middle East, but is hoping to find some small oil reservoirs to compensate for

dwindling onshore production. Unfortunately, one of the most promising areas lies close to Hawar Island, just off Qatar, which Bahrain and Qatar have literally battled over for years. The British gave the islands to Bahrain in the 1930s and at the moment there is reportedly a Bahraini garrison there. The Qataris are very emotional about the issue — they say they can walk to the island at low tide. The ownership dispute is being worked out now by the Gulf Cooperation Council.

Onshore, Banagas is interested in investigating levels lower than its non-associated gas field in the Khuff zone, which lies at about 10,000 feet. According to Mr. Fakhro, the company plans to drill a deep test well to about 20,000 feet next year. He is quite optimistic about possible new finds, but Mr. Shirawi says "it doesn't look very good."

For the time being, at least, a plan to build a liquefied natural gas plant to export the gas from the Khuff gas reservoir, estimated by Mr. Fakhro to hold 10 trillion cubic feet, has been shelved. The decision seems to have been made instead to use the gas to fuel Bahrain's burgeoning industrial sector, a decision that, according to Mr. Shirawi, will stretch out the life of the gas field for another 50 years.

Used as Feedstock

At the moment, Khuff gas fuels the Bapco refinery as well as the power plants that supply the national grid and is injected into the oil field to maintain pressure. It will be used as feedstock for the Gulf Petrochemical Industries Company, for which an \$80-million construction contract has already been signed with Snamprogetti, and as fuel for the Arab Iron and Steel Company plant that is to be built by Kobe Steel for \$221 million.

Until the LPG plant came on stream in 1980, Khuff gas was used as fuel at the Alba aluminum smelter but now much of the fuel for the aluminum industry comes from tail gas from the LPG plant — the gas that remains after the naphtha, propane and butane are stripped from the associated gas.

The \$95-million LPG plant went on stream in the first quarter of 1980, just the right time to catch the peak of the soaring LPG prices. It paid for itself in less than 18 months. Mr. Fakhro, who also heads Banagas, says that the company was making an estimated \$55 million to \$60 million a year gross profit at the peak. Although LPG prices have dropped from about \$330 a ton to about \$225 to \$250, the operation is still making money, according to Mr. Fakhro.

As Bahrain continues to set up industries based on hydrocarbons, the question arises about what it will do when those hydrocarbons run out in the next century, as foreseen. Mr. Shirawi affirms: "Remember, we are in the Gulf. All around us we have a lot of gas we can buy."

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BUSINESS BRIEFS

American General to Acquire NLT

HOUSTON — American General said Tuesday that it has agreed to acquire NLT in a transaction worth about \$1.5 billion, ending a takeover struggle between the two insurance companies that began in April. Both boards have approved the acquisition.

Under the agreement, NLT shareholders will have the right to receive \$46 a share in cash for up to 15 million NLT shares. For the remaining 16.4 million shares, American General said it would exchange a combination of convertible securities with a market value of about \$46 a share. On the New York Stock Exchange, American General fell 5 1/2 to close at 30 1/2 on a volume of about 157,000 shares, and NLT gained 1 1/2 to 39 1/2 on a volume of 712,000 shares.

NLT had countered an earlier American General bid of \$1.1 billion in stock with its own bid of \$676 million for 48 percent of the larger company, which has assets of about \$8 billion.

Continental TIA Near Debt Accord

LOS ANGELES — Continental Airlines and its sister carrier, Texas International Airlines, have reached verbal agreement with all but one of their major lenders to restructure a total of \$295 million in long-term debt, they announced.

A Continental spokesman said Monday that the airline's share of the \$295 million to be restructured is \$199 million, while Texas International's is \$96 million. Both airlines have been losing money, but Continental is considered to be in the more precarious position.

Meanwhile, Continental said it has reached a preliminary agreement to sell its 15-story office building in El Segundo, Calif., which will allow it to pay off a \$25-million short-term loan it took out in February.

U.S. Automakers' Sales Drop 12.3%

DETROIT — Sales by Ford, Chrysler and General Motors were down by 12.3 percent last month, the automakers said Tuesday, and analysts said June may have been the industry's worst month in 25 years. Sales had increased in May for the first time in the model year.

GM, which discontinued a low-interest financing offer, saw its sales fall 16.7 percent. Ford's sales were down 5 percent, and Chrysler, which offered incentives on all models, reported a 4-percent decline.

U.S. Steel Seeks Wage Concessions

PITTSBURGH — Negotiators for the United Steelworkers of America and U.S. Steel Corp. are to meet Wednesday and Thursday to study ways to moderate labor costs. The union will hold discussions with other major steel producers later this month.

The union is taking a cautious attitude toward the discussions, which it agreed to after a request last month from eight steel producers for early contract talks.

Fiat Says Group Made a Profit in '81

TURIN — Fiat made a group profit of several tens of billions of lire last year, after a consolidated loss of about 240 billion lire (\$172.8 million) in 1980, Fiat chairman Giovanni Agnelli said. Full figures will not be available for several months, he said.

But he warned that Fiat faces an unfavorable year, saying, "The continuing high level of unused capacity in many sectors in which the group operates is going to lead to an extremely tough struggle for market share." Mr. Agnelli said European markets were recovering much more slowly than expected.

Fujitsu Unveils 'Fastest Computer'

TOKYO — Fujitsu, Japan's largest computer-maker, said Tuesday it had developed the world's fastest computer. The model is classed as a supercomputer, of which there are only about 50 in operation worldwide.

A spokesman said the new Facom VP-200 is capable of processing data at a speed of 3 million floating-point operations per second. He said the two largest makers of supercomputers, Cray Research and Control Data of the United States, have models claiming speeds of 4 million operations per second.

The new computer is intended for scientific uses, such as analysis of meteorological, technological, and nuclear reaction-related data. It will sell for \$3.1-billion yen (\$12.1 million) or less for 69 million yen a month. Delivery is expected to begin in October, 1983.

Proxy Contests Gaining Favor as Takeover Tool

By Tamar Lewin  
New York Times Service

NEW YORK — For Gulf Resources and Chemical, it was a stunning defeat. Less than two weeks before its May 11 annual meeting, the ailing mining and chemicals concern had found out that Alan E. Clore, a British investor, was waging a proxy fight for control of the company. Almost before Gulf Resources's top executives could catch their breath, they were ousted in one of the fastest proxy contests on record.

Mr. Clore's victory and its modest price tag of \$1.5 million did not escape notice on Wall Street, where he captured the attention of many professionals and investors who rarely give faltering companies such as Gulf Resources a second glance.

In short order, mergers and acquisitions specialists, along with disgruntled shareholders, began to wonder whether they, too, could take over a company with so little money and so little time.

In light of the Gulf Resources contest, many Wall Street analysts expect a new wave of proxy fights in which dissident investors, rather than trying to buy a company, will seek to take the reins from management by winning shareholder support for their policies.

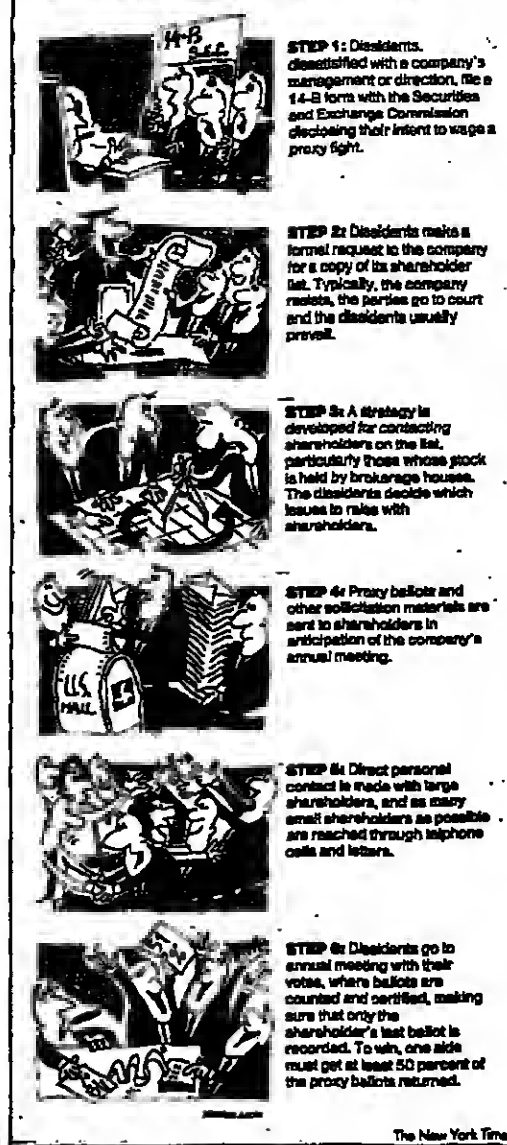
"I think Gulf Resources was a tremendous eye-opener," said Stephen Schwarzman, a partner at Lehman Brothers Kuhn Loeb. "All these businessmen are trying to buy companies and getting rebuffed by management, and here's this guy from Britain who moves in quickly and gets control, relatively cheaply. That deal tells you something has changed."

Analysts believe that, as long as stock prices remain depressed and high interest rates make it difficult to finance an acquisition, dissatisfied investors, particularly those with large stock holdings, will find the proxy fight an increasingly popular tactic for winning control of a company.

In fact, a significant upturn in the number of proxy fights is already apparent, according to Georgetown & Co., a leading firm in the business of soliciting shareholder proxies. Its figures show that there have been 11 major battles so far this year — including Gulf Resources and the pending Global Natural Resources fight — compared with 17 in all of 1981 and the same number in 1980.

Though Gulf Resources is the most dramatic example, similar proxy wars have brought new management to several other companies. Last spring, Neil

The Rites and Rituals of the Proxy Game



Leist, 33, won control of American Bakersies, the United States' fourth-largest commercial bakery. A few months later, after a bitter two-year contest, Michael Buchsbaum took over Holly Sugar. Last year's successful proxy fight at Penn Central was more limited. Instead of trying to gain control, dissi-

(Continued on Page 16, Col. 2)

France Plans Record Aid in 1983 For State Companies, Fabius Says

By Axel Krause  
International Herald Tribune

PARIS — The French government plans to allocate a record 11 billion francs (\$1.6 billion) in 1983 to finance the expansion of state-controlled companies, including those nationalized earlier this year, Budget Minister Laurent Fabius said Tuesday.

Emphasizing that the government was acting primarily as a

shareholder, Mr. Fabius told the Anglo-American Press Association that the amount was considerably more than various forms of state aid being provided this year. Ministry officials said that financial assistance being provided to recently nationalized companies during 1982 will total roughly 9 billion francs, representing the largest share of the total.

Mr. Fabius said the Socialist government is determined to maintain a "stable environment" for business expansion in both the private and state-controlled sectors.

The minister did not say how the state aid would be financed, indicating only that this would be determined as the 1983 budget is formulated.

Confirming earlier statements by government officials, Mr. Fabius said next year's budget deficit will be below 120 billion francs, equivalent to roughly 3 percent of the gross national product. In the current year, the deficit of roughly 100 billion francs will also be close to 3 percent of the GNP, he added.

He confirmed that the government is now forecasting GNP growth during 1982 of between 2 and 3 percent. A 3.3-percent growth rate had been forecast earlier this year.

The slight downward revision is in line with forecasts announced Tuesday by the Organization for Economic Cooperation and Development. France's GNP growth "could be close" to 3 percent in annual terms in the second half of 1982, OECD said in a semi-annual report on its 24 member nations.

But the growth rate will be slowing in subsequent months, perhaps falling to 2 1/2 percent in the second half of next year, OECD said.

Mr. Fabius said that in pursuing an austere fiscal and monetary policy, the government also will insist on cuts in internal spending. These economies, which are only now being implemented, will extend to ending first-class travel for senior civil servants.

Mr. Fabius, responding to a

question about the government's effort to combat tax evasion and the flight of capital from France, said that he had not yet seen the report being prepared by customs authorities following raids Feb. 25 on the Paris offices of two U.S. brokerage firms.

Argentina Devalues the Peso, Plans Controls on Economy

Compiled by Our Staff From Dispatches

BUENOS AIRES — Argentina's central bank has devalued the peso at the country's new commercial rate to 20,000 pesos per dollar from an across-the-board rate of 15,600, the bank said Tuesday. Earlier in the day, the bank announced a two-tier, commercial-financial foreign exchange system, in line with new policies outlined by Economy Minister José María Dagnino Pastore.

The new financial rate for the peso in the two-tier system was not immediately available.

The central bank's action followed a televised address by Mr. Dagnino Pastore, who said the Argentine economy was "in a state of destruction without precedent."

Economic policies to be adopted by the new government of President Reynaldo Benito Bignone are aimed at stimulating the economy, reducing the heavy debt burden of domestic companies, fulfilling foreign debt commitments, creating a new financial system and controlling inflation, Mr. Dagnino Pastore said.

He said the government would impose strict interest, import and monetary controls, and would encourage price controls with incentive loans and debt refinancing that one businessman said could be virtual arm-twisting because of businesses' dire need for loans.

Under the two-tier system, the central bank fixes a daily commercial peso-dollar rate for imports and exports, and a financial rate for international loans and other transactions. The financial rate will be allowed to reflect the free play of market forces. It was expected to start at 24,000 to 28,000 pesos per dollar.

Dollar Black Market

In the old system, all transactions were carried out at a single rate. The higher financial rate was designed to stem the outflow of dollars, partly by undercutting a ballooning black market in dollars by approximating the black market value, Mr. Dagnino Pastore said.

Mr. Dagnino Pastore, who took over as economics minister Friday, said that the open financial system that had been the heart of Argentina's experiment in a free market economy had deteriorated into an "explosive situation" and would be restructured "from its foundations."

The central bank's moves to in-

sure orderly repayment of Argentina's foreign debt of more than \$35 billion involve an exchange insurance system to encourage domestic companies to take out new loans for repayment in more than 180 days, and to reschedule previous loans over terms of one to five years.

Mr. Dagnino Pastore said that Argentina would try to pay the \$4.5 billion due this year in interest alone on its foreign debt and to refinance the principal due.

Banks will be brought under strict controls regarding interest rates on loans and deposits and the volume of credit they will be allowed to provide to customers. With time, the existing banking

system will shrink in size, he said. Meanwhile, a free banking system will be developed.

Mr. Dagnino Pastore said unemployment was more than 6 percent and inflation was more than 100 percent. He said many businesses and 118 financial companies have gone bankrupt since 1977, when the ruling military instituted the free market system.

For the average Argentine, the plan is designed to halt a steady drop in real wages. An Economics Ministry report said real wages had fallen 40 percent since the beginning of this year. But the measures are also likely to increase the cost of goods the average earner can buy.

NYSE Index Is Lower, But Dow Gains Slightly

Compiled by Our Staff From Dispatches

NEW YORK — Prices on the New York Stock Exchange closed mostly lower Tuesday in sluggish trading. The Dow Jones industrial average, which fell 6.28 points Friday, moved up 1.91 points to 798.9, but the broader-based NYSE composite index retreated 0.21 to 61.78 and declines led advances by an 8-to-5 margin.

Volume was 44.51 million shares, up from 43.76 million Friday.

Prices on stock markets throughout the world were broadly lower in the first half of 1982. Page 16.

The Dow fell 6.09 points overall last week. The market was closed Monday for the Fourth of July weekend.

Analysts said investors were discouraged by the U.S. purchasing managers' monthly report, which showed weakening industrial activity in June, as well as by concern that second-quarter earnings will prove poor and by continuing high interest rates.

Some traders were encouraged by the government's report late Friday that the nation's money supply fell more than expected, \$2.2 billion. But with the Reagan administration's 10-percent tax cut in place and Social Security payments increased, the supply is likely to surge soon.

Investors are also concerned that heavy government borrowing

will keep pressure on interest rates throughout the remainder of the year, a Wall Street Journal survey found.

The Treasury said Tuesday that it will raise \$900 million in new cash by selling \$5.3 billion in three-month bills and the same amount of six-month bills at its regular weekly auction Monday.

Giddings & Lewis, which produces machine tools and industrial products, doubled in price, rising 12 1/2 to 25 1/2 on 757,000 shares traded, after AMCA International began a tender offer for all Giddings shares at \$25 each.

Bank stocks came under fire after federal authorities closed the Penn Square Bank of Oklahoma City — an aggressive energy industry lender — and the Federal Depositary Insurance Corp. took over. Several large banks, such as Continental Illinois and Chase Manhattan, were trying to determine their losses from loans to Penn Square.

Continental Illinois lost 1 1/2 to 20 1/2 as 720,000 shares changed hands. The company said it expects to report a first-quarter loss due to loans to Penn Square. Continental was reported to have had \$1 billion in Penn Square loans outstanding.

Atlantic Richfield retreated 1 1/2 to 36. The company would not comment on reports that it may sell its Philadelphia refinery.

Acting as Middleman for Exports, Northrop Boosts Its Sales Abroad

By Dan Morgan  
and Walter Pincus  
Washington Post Service

WASHINGTON — On a visit to Turkey last April, officials of Northrop, the big fighter-plane manufacturer, made a detour to Anatolia, where they spent a day visiting vineyards, inspecting wineries and sampling the pleasant local vintages that are little known outside the country.

That side trip led to a surprising company conclusion: Turkish wine might help Northrop sell Turkey sophisticated F-5G and F/A-18L military aircraft.

Under a proposal that Northrop is still working out, the company would guarantee to find markets in third countries for tens of millions of dollars' worth of Turkish wine, refrigerators and other products in return for Turkey's selection of Northrop's planes over General Dynamics'.

Such unconventional business arrangements, called "offsets," have become increasingly important in the highly competitive trade in costly modern weaponry.

As part of its sale of F-18As to Canada, Northrop helped line up a customer in Liberia for a Canadian maker of paper cups, and it helped Swiss companies sell elevators to Egypt and precision drills to Spain as part of a 1976 deal for 72 F-5Es. McDonnell Douglas officials say that offsets will be a key factor in whether the company succeeds in selling its long-range Harpoon missile to Canada.

The reason for this is money. Western governments and arms manufacturers, which have invested billions in a new generation of high-priced electronic armaments, are competing aggressively to sell the new equipment abroad. But the world recession has left many prospective buyers deeply in debt and short of funds for new purchases, and the U.S. government has scaled down its military aid and credits worldwide. The possibility of offsetting the costs of buying military aircraft with revenue from new exports, or other techniques, has become a necessity.

Arms manufacturers have traditionally sweetened deals involving expensive items such as tanks and aircraft with arrangements that allowed countries buying the weapons to produce some or all of them in order to offset the costs, save foreign exchange and create jobs.

Northrop officials, however, contend that they are pioneers in marketing a customer country's products to third countries in return for aircraft sales.

in the early 1970s when it was trying to sell Switzerland 72 F-5Es worth \$450 million. As an inducement, Northrop promised to find markets for \$150 million worth of Swiss products.

It set up a special office in Switzerland, inventoried 800 Swiss companies and established a computerized library of exportable Swiss products at Northrop headquarters in California. Northrop representatives all over the world were told to be alert to markets for the Swiss products.

Exceeded Goal

As a result, officials say, within five years Northrop helped 200 Swiss companies find markets for \$209 million worth of products, mostly outside the United States. On July 1, 1981, Northrop won another Swiss order for 38 more F-5s.

Northrop officials also say they quickly exceeded their goal, set in connection with the sale of F-18s to Canada in 1978, of helping Canada find markets for \$30 million worth of products.

Company officials say the sale of the paper cups came as the result of a chance meeting in Liberia between an alert Nigeria-based Northrop representative and a businessman who expressed an interest in importing paper products.

In Turkey, offset terms are emerging as a possibly decisive factor in a competition between Northrop and General Dynamics in which hundreds of millions of dollars' worth of business is at stake. For Northrop, the outcome has taken on added importance since the U.S. government turned down a request to sell the F-5G to Taiwan and the company has not

yet found another overseas market for the plane.

Although the United States lifted its partial arms embargo on Turkey in 1978, Turkey postponed modernization of its armed forces while it grappled with huge foreign debts and an economic crisis. Now, senior U.S. military officials have said, Turkey's NATO-assigned armed forces need new equipment that could cost as much as \$5.6 billion.

Turkey is giving priority to obtaining sophisticated fighter airplanes to replace planes that are already obsolete or will be so by 1984. Ankara has reportedly narrowed its shopping list down to F-5s, F-16s and F-18s. The U.S. government has authorized \$400 million in foreign military sales credits for Turkey, but this is not enough to cover Turkey's needs, Turkish officials say.

This was the problem uppermost in the minds of members of a Northrop commercial team that spent almost two months in Turkey in April and May, interviewing officials, businessmen and trade associations and making an inventory of Turkish companies with export potential.

In addition to promoting such items as wine and refrigerators, Northrop officials say they have told Turkish construction companies about projects in Nigeria and Saudi Arabia that could earn money for Turkey and might count as offsets against plane purchases.

Northrop's role, officials stress, would not be to buy wine as payment for planes, but to locate a foreign merchant who might want to import it.

CURRENCY RATES

Interbank exchange rates for July 6, excluding bank service charges.

	\$	£	D.M.	F.F.	Y.L.	Y.L.	S.F.	S.F.	D.K.
American	1.0000	0.7456	1.9360	16.6370	20.4800	1.3663	2.4835	2.3636	21.9360
Brussels (a)	0.78	0.81975	1.9111	16.681	20.481	1.3663	2.4835	2.3636	21.9360
Frankfurt	0.78	0.81975	1.9111	16.681	20.481	1.3663	2.4835	2.3636	21.9360
London (a)	0.78	0.81975	1.9111	16.681	20.481	1.3663	2.4835	2.3636	21.9360
Paris	0.78	0.81975	1.9111	16.681	20.481	1.3663	2.4835	2.3636	21.9360
New York	1.0000	0.7456	1.9360	16.6370	20.4800	1.3663	2.4835	2.3636	21.9360
Puerto Rico	0.78	0.81975	1.9111	16.681	20.481	1.3663	2.4835	2.3636	21.9360
Spain	0.78	0.81975	1.9111	16.681	20.481	1.3663	2.4835	2.3636	21.9360
Switzerland	0.78	0.81975	1.9111	16.681	20.481	1.3663	2.4835	2.3636	21.9360
West Germany	0.78	0.81975	1.9111	16.681	20.481	1.3663	2.4835	2.3636	21.9360
Y.L. (b)	0.78	0.81975	1.9111	16.681	20.481	1.3663	2.4835	2.3636	21.9360

(a) Commercial franc; (b) Amounts needed to buy one pound. (\*) Units of 100. (L) Units of 1,000.

WEEKLY NOTIFICATION COMPREND II A MANAGED COMMODITY ACCOUNT.

EQUITY ON:  
JANUARY 1, 1982  
\$100,000.00  
JULY 1, 1982  
\$103,404.24

after all charges

EQUITY ON:  
JANUARY 1, 1981  
\$100,000.00  
DECEMBER 31, 1981  
\$237,214.03

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For information call or write Royal Frazier or Ben Somerville, TAPMAN: Trend Analysis and Portfolio Management, Inc., Wall Street Plaza, New York, New York 10005, (212) 269-1041, TELEX 8866773 UW. TAPMAN is a wholly-owned subsidiary of Balfour, Beatty International LTD.

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Gold Markets	July 6
A.M.	P.M.
London	315.00
New York	313.75
Paris (12.30)	313.75
Zurich	313.75
Frankfurt	313.75
Geneva	313.75
Basel	313.75
Brussels	313.75
Amsterdam	313.75
Stockholm	313.75
Copenhagen	313.75
Helsinki	313.75
Oslo	313.75
Stockholm	313.75
Copenhagen	313.75
Helsinki	313.75
Oslo	313.75

Gold Options (prices in \$/oz.)	July 6
Call	Put
310	315
315	320
320	325
325	330
330	335
335	340
340	345
345	350
350	355
355	360
360	365
365	370
370	375
375	380
380	385
385	390
390	395
395	400
400	405

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July 7, 1982  
By: Citibank, N.A., London, Agent Bank

**CITIBANK**

## U.S. Analysts Predict Wave of Proxy Fights

(Continued from Page 15)

cents sought only to block Penn Central from completing a \$1.4-billion merger with Colt Industries.

Because shareholders usually differ on what constitutes salvation, most proxy fights are up-and-down affairs. In this year's fight for control of Tosco, for example, management charged that dissident Kenneth Good, who was trying to get Tosco to pull out of the Colony Oil Shale Project, was bribing his girlfriend, the director of the Colorado Department of Local Affairs, for nonpublic information on Tosco.

By the annual meeting in May, the confrontation had become so heated that Tosco management disconnected Mr. Good's microphone when he began personal attacks on company officers.

Despite the bitterness, a proxy fight is often much cheaper than conducting a tender offer when trying to take effective control of a corporation.

In asking shareholders to vote by proxy for a new slate of directors, or to oppose a management decision, the dissident shareholder must only win support of a majority of those shareholders who return their proxy ballots. The costs of waging such a battle tend to be limited to legal and advisory fees and advertising costs.

In most cases, the dissident investor has already purchased a substantial block of shares himself — Mr. Gore accumulated more than 15 percent in the seven months before Gulf Resources' annual meeting, and Mr. Good spent more than a year acquiring his 8.8 percent share of Tosco — and may

be able to win his fight merely by enlisting a handful of other large stockholders.

"Fewer people are willing to put up 100 percent in cash to get control of a company," said Brian Young, vice president in charge of mergers and acquisitions at First Boston. "In a proxy fight, the shares you do buy, you buy at close to the market price, and of course you don't have to buy as many shares as you do to get control of a company through a tender offer."

Although proxy battles can be an inexpensive way to gain control of a company, financial experts stress that they will not replace tender offers. While individual stockholders may be satisfied with taking over the board, analysts say, most corporations want to acquire, not just control, other companies. And for most large corporations, proxy fights are too long and their outcome too uncertain to be an attractive option.

The Gulf Resources fight took two weeks, but most contests involve months of battling, with allegations of mismanagement and fraud bandied about in court, in newspaper ads, in mailings to shareholders. These battles are, in large part, why the tide turned in favor of tender offers in the early 1960s.

In the '40s and '50s, you had a lot of proxy fights," said Martin Lipton, a takeover specialist with the law firm of Wachtell, Lipton, Rosen & Katz. "Then in the '60s, everyone turned to tender offers, which are quicker, neater and cleaner. But for individual investors, activity in proxy fights is being significantly revived this year. Most proxy fights have been in the smaller companies, but I'd expect 10 or 12 fights this year at companies with market values over \$50 million."

The current faltering economy is a perfect environment for proxy contests. Stock prices are depressed, with many companies barely clinging to existence. And, as a general rule, proxy fights are more apt to take place in less successful companies.

"When a company is performing badly, it's easy to convince shareholders a new team would do better, even if the problems were due more to the general business climate than to bad management," said Mr. Schwarzman.

Many people believe that the market is so bad right now that, as a takeover expert put it, "nearly every company seems like a real dog." So aggressive, disgruntled shareholders — Victor Posner and Carl Icahn are repeatedly mentioned as examples of the kind of investor likely to be alert to the possibility of waging a proxy fight — may find it the right time to try to leverage a minority interest into control of a major corporation.

## Luxembourg Told It Can't Alter Union

Compiled by Our Staff From Dispatches

**BRUSSELS** — Belgium has rejected a Luxembourg plan that could have led to separation of the Belgian and Luxembourg francs.

In a meeting Monday, Belgian Premier Wilfried Martens turned down a request to provide exchange-rate guarantees for Luxembourg assets held in Belgium francs. The guarantee would have come into play if the Belgian franc was devalued but the Luxembourg franc was not.

A communiqué issued after the meeting by Mr. Martens and his Luxembourg counterpart, Pierre Werner, pledged the two nations to try to keep the Belgian franc as strong as possible in the European Monetary System. But it made no mention of Luxembourg's earlier demands for major reforms of the 60-year-old Belgo-Luxembourg Economic Union, or BLEU.

Luxembourg, which relies heavily on imports from West Germany, had pressed for the commitment of support within the EMS. Any devaluation of the linked currencies against the Deutsche mark would increase the cost of its imports and add to inflation.

Luxembourg also had said before the meeting that it wanted a separate calculation of its balance of payments and a separate valuation of its foreign exchange and gold reserves, which are held by the Banque Nationale de Belgique.

Belgium's failure to consult its small economic partner before February's 8.5-percent devaluation of the Belgian franc within the EMS was bitterly criticized in Luxembourg, which was forced to follow suit. That gave rise to calls for reform within the economic union, and possibly even an end to the linkage of the two francs.

An end to the linkage would have posed some problems. For one thing, an appreciation of the Luxembourg franc against the Belgian franc would expose Luxembourg banks to losses from their heavy lending in Belgium.

The Belgian sources said Luxembourg ministers did not raise the question of separate listing of foreign reserves, though Luxembourg — which unlike Belgium has a balance of payments surplus — is known to be sensitive about the current system.

But the communiqué did not mention separate listings. It merely expressed satisfaction at the way the two governments had consulted each other before last month's EMS realignment.

Tuesday, the Belgian franc was stable in the EMS in quiet trading. The currency was quoted at 19.111 against the Deutsche mark, compared with 19.115 Monday.

## World Stock Prices Off Sharply in First Half

By Phillip H. Wiggins

New York Times Service

**NEW YORK** — Prices on stock markets throughout the world were broadly lower in the first half of this year, reflecting nervous investor reaction to economic and political turmoil in several countries.

Of the world's leading stock exchanges, only the London market showed firmness and resilience. Paris share prices fell sharply, the Frankfurt exchange is about where it was at the start of the year and the Toronto Stock Exchange closed out the half with its biggest loss since 1940.

Experts say that one reason for the London market's strength was a substantial decline in interest rates in Britain, as shown by the three-month interbank rate, which fell to 12 1/2 percent in May from a high last October of 17 percent. By June, however, reacting to the pound's slide against the dollar, the three-month rate had edged up to 13 3/16 percent.

Other factors sustaining the stock market in London have been an increase in productivity, substantially lower requirements for government borrowing, predicted increases of 15 percent to 40 percent in aggregate corporate profits, and the recent British victory in the Falklands, which rekindled support for Prime Minister Margaret Thatcher.

Only two weeks ago, the Financial Times 30-share index of leading British companies rose to within a point of its April 1981 record of 597.3, while the all-share index of 750 companies rose to a record 341. The market has showed weakness in recent days, however, because of a rise in U.S. interest rates and doubts about Britain's expected economic recovery.

In Paris, prices on the Bourse have fallen sharply in the three weeks since the government of François Mitterrand announced its price-wage freeze and a 10-percent devaluation of the franc against the Deutsche mark. The market dropped 7 percent in one week, to 100 from 111.

This drop, however, was not nearly as sharp as the index's decline to 83 from 121 at the election of the Socialists last spring. The market began its recovery last

summer, partly because of a modest growth in the economy and partly because of the business community's general acceptance of Finance Minister Jacques Delors.

Analysts cited several reasons for the recent weakness in French stocks. Among them were the inclusion of dividends in the four-month wage-price freeze, the continued fall of the franc against the dollar and the expectation that austerity measures will bring a loss of purchasing power.

Investors who follow the French market said that the wage-price freeze, despite its initial depressing effect, is not likely to affect the market decisively. More important, they said, will be the nature of the government's economic policy after the freeze ends.

The stock markets in Australia, New Zealand, Manila, Singapore and Malaysia suffered a March decline rooted in skepticism about the chances for any improvement in Western economies. In late April and May, these markets recovered to their peaks for the first half, before weakening from late May through the first half of June.

**Hong Kong Depressed**  
The Hong Kong stock exchange indicator, the Hang Seng index, has been less erratic this year than last, but is still generally depressed. The market opened the year at 1,405.82, or 4.6 percent below its January level a year earlier.

Through most of the first half, the Hong Kong market declined steadily, reaching a bottom of 1,165.96 on March 31 after panic selling on fears of a worsening market. It recovered to a level of 1,300 on March 4. The market rebounded by late April to 1,300 on the index, which it has straddled since then.

The Frankfurt Stock Exchange, the largest in West Germany, closed the first half about where it started. Repeating last year's performance, the market was bullish into early April, then began to slump.

Stock analysts in Frankfurt attribute the winter slump to strong hopes for a drop in bank interest rates. As West German interest rates edged down two percentage points from a high last autumn, reflecting falling consumer prices and West Germany's improved balance-of-payments picture, market activity escalated and prices moved to higher ground.

Stock prices slackened, however, as predictions of a prolonged recession multiplied.

The major steel manufacturers, such as Hoechst and Thyssen, generally continued to benefit from steel price increases in Europe, while department stores were buoyed by a slight increase in consumer spending. But AEG-Telefunken, an electrical products company that has been on the edge of bankruptcy for several years, declined as prospects for recovery, the company's financial plight

"The key for the next half year lies in international interest rate movements," said Wolfgang Otto, head of the stocks division at Commerzbank in Frankfurt. His statement reflects a consensus among analysts on the Continent that continued high interest rates in the United States will weaken stock trading in Europe.

High U.S. interest rates were blamed for dampening prices on the Zurich Stock Exchange in the first half. Swiss analysts pointed out that the slow crumbling of stock prices was more the result of investors moving into fixed-interest, dollar-denominated securities than the result of heavy selling.

Although hopes for lower interest rates generated a slim recovery in March and April, optimism evaporated shortly thereafter and stocks retreated. Shares of machine building and machine tool companies such as Brown, Boveri and Oerlikon-Bührle, and the metal companies that supply them, such as Alusuisse, were hardest hit. As were Switzerland's watchmakers. Chemical companies, however, did moderately well.

The performance of the Toronto Stock Exchange — a crucial barometer of Canada's economic health — could best be described as dismal. The exchange accounts

for 80 percent of the country's stock transactions measured in dollars.

The record of the exchange's index of 300 stocks during the first six months — down 30.09, the second worst six-month loss ever at the worst since a 32.73-point drop in 1940 — continues a period of severe problems that began in 1981. On Nov. 28, 1980, the index reached its historic peak of 2,402.63. It closed last Friday, 1,359.9, up only 4.4 from its 1981 low of 1,355.5.

Volume on the exchange through June 25 was 578.6 million shares, compared with a volume of 769.1 million through June 26 last year.

**Protests Delay Bourse Trading**  
**PARIS (Reuters)** — Demonstrators from small and medium-sized businesses threw smoke bombs and firecrackers in the Bourse on Tuesday. Bourse sources said they said the group was campaigning to save companies in the national association for small businesses says are doomed by price freezes.

The sources said the Bourse was evacuated and the start of trading delayed for more than an hour.

## Many NYSE Stocks Dropped 35% or More in 6 Months

New York Times Service

**NEW YORK** — The first six months of 1982 have been bad ones for the New York stock market — so bad that the prices of 161 of the stocks listed on the New York Stock Exchange have dropped by at least 35 percent since January. Only 50 issues gained 35 percent or more in the first half.

The NYSE's five worst-performing stocks during the half were those of Texas International, Datapoint, Penco Industries, GEO International and Flow General. Each has dropped in price by two-thirds or more since January.

Three of the five — Texas International, GEO and Penco — are involved in the oil and gas business. Texas International explores for and produces oil and gas, while the other two manufacture equipment used in drilling. Flow General is a small biomedical company and Datapoint makes computer systems.

Although they are far outnumbered by those companies whose stock is still dropping, some former losers have become big winners on the Big Board this year. The stocks of Vendo, Choleco Industries, Borman's, Chrysler and McLean Trucking have more than doubled since January.

Leading the list is Vendo, a leading manufacturer of coin-operated

vending machines, with a gain of 176 percent. After many years of financial difficulties, Vendo acquired eight parcels of real estate worth several millions of dollars in late 1981 as partial settlement of a litigation award. Richard O. Donegan took over as president and chief executive on March 1, saying the company had "great turnaround opportunities."

Another big winner, McLean Trucking, also had losses in 1980 and 1981. Early this year, however, McLean agreed to be acquired by Meridian Express, a privately owned Dallas-based transportation holding company, in a cash buyout valued at \$101.3 million.

Chrysler, too, has been in serious financial trouble in past years. Since 1977, the company had recorded losses totaling \$3.4 billion, and was saved from bankruptcy only by \$1.2 billion in federally guaranteed loans. But last month, Chairman Lee A. Iacocca predicted that Chrysler would earn an operating profit in the second quarter, but for all of 1982.

Coleco, which manufactures games and toys, announced this spring that the response to its line of hand-held arcade electronic games was extraordinary and that shipments of its video game system would begin this month. Borman's operates supermarkets in the Detroit metropolitan area.

# What's really happening in Turkey?

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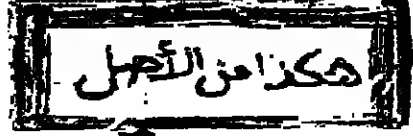
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**WHAT THE TROUT SAID: About the Design of Trout Flies, and Other Mysteries**  
By Datus C. Proper. Drawings by Bill Elliott. 273 pp. \$16.50.  
Knopf, 201 East 52nd St., New York, N. Y. 10022

**FISHING DRY FLIES FOR TROUT ON RIVERS AND STREAMS**  
By Art Lee. 284 pp. Illustrated. \$19.95.  
Atheneum, Vreeland Ave., Totowa, N.J. 07512

**THE STREAMSIDE FLYFISHER'S GUIDE**  
By Max Hale and Brian Kahn. 87 pp. Illustrated. \$6.95.  
Baetis Press, Sonoma, Calif.

in a discussion of fishhooks, he addresses with the utmost sobriety the problem of hooks that get straightened out by big trout. Hooks that get straightened out by trout? Trout that have the power to do such a thing to a hook? This is exactly the sort of thing that gets me quivering as I approach: trout stream.

And that brings us to Brian Kahn and his wife, Male's, "The Streamside Fisherman's Guide," a handy little booklet by two California fishermen. You see, because I tend to quiver a lot as I approach a trout stream, all the good stuff I've ever read about fishing goes straight out of my head, and I start pounding the water like a frozen rugbeater. That's exactly what the guide is intended to do: to steady me. It measures 3 1/4 inches by 6 1/4 inches, which makes it a reasonably convenient size for a fellow to keep in a fishing vest or a tackle box. It has a waterproof cover and binds in just in case you're dragged under the heavy hook-straightening Leviathan.

Most important of all, it's full of basic things to remind you of all the things you've ever read and to get your mind percolating again: wisdom to take along on a fishing trip, how to read the water, what to do when it rains, else fails, knots, fly identifications.

I try to picture myself consulting the guide while standing hip-deep in the middle of a river with a book, straightening beehorns on the other end of my line. I don't think anyone will laugh very loud. They will know that it's only a book, and that's what they need. They will know that I mean it. They will know that I am closing the gap between catching fish and apprehending literature.

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**The New York Times**  
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YOU'RE GOING TO TELL HIM WHAT YOU REALLY THINK OF HIM!

WELL, DON'T JUST STAND THERE... TALK ME OUT OF IT!!

YOUNG GEORGE

**B E E T L E B A I L E U**

COME OUTA THERE, YOU LITTLE GUY!!

OH, YEAH? TAKE THAT!

SNAP!

MORT WALKER

THOUGHT YOU COULD HIDE FROM ME, HUH?!!

SARGE LIKES FOOD THAT FIGHTS BACK

7-7

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ANDY  
CAPP

SEE YOU, RUBE. I THINK I OUGHT TO CALL IN AN' 'AVE A DRINK WITH ANDY

HI THERE, PET. I THOUGHT I'D SURPRISE YOU -

I BET YOU DIDN'T EXPECT TO BE HAVIN' A DRINK WITH A WOMAN TONIGHT, DID YOU?

WELL, YES, I DID - BUT YOU'VE PUT THE 'MOCKERS ON IT'

BAR

BINGO

7-7

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WIZARD of ID

SEVEN O'CLOCK AND TIME FOR THE EVENING NEWS

WITH DAN RATHER THAN WALTER

July 6, 1982

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— (d) GlobInvest	SF 897.00	— (d) Japan-Invest	SF 90.00
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ST & C&G Pz Fd	\$1.07	Union Investment Frankfurt	DM 34.36
ST & C&G Pz Fd	\$1.07	(1) Luxembourg	DM 13.10
ST & C&G Pz Fd	\$1.07	(2) United Kingdom	DM 13.10
ST & C&G Pz Fd	\$1.07	(3) Netherlands	DM 13.10
ST & C&G Pz Fd	\$1.07	(4) Switzerland	DM 13.10
ST & C&G Pz Fd	\$1.07	(5) Germany	DM 13.10
ST & C&G Pz Fd	\$1.07	(6) France	DM 13.10
ST & C&G Pz Fd	\$1.07	(7) Italy	DM 13.10
ST & C&G Pz Fd	\$1.07	(8) Spain	DM 13.10
ST & C&G Pz Fd	\$1.07	(9) Portugal	DM 13.10
ST & C&G Pz Fd	\$1.07	(10) Greece	DM 13.10
ST & C&G Pz Fd	\$1.07	(11) Ireland	DM 13.10
ST & C&G Pz Fd	\$1.07	(12) Belgium	DM 13.10
ST & C&G Pz Fd	\$1.07	(13) Austria	DM 13.10
ST & C&G Pz Fd	\$1.07	(14) Denmark	DM 13.10
ST & C&G Pz Fd	\$1.07	(15) Sweden	DM 13.10
ST & C&G Pz Fd	\$1.07	(16) Norway	DM 13.10
ST & C&G Pz Fd	\$1.07	(17) Finland	DM 13.10
ST & C&G Pz Fd	\$1.07	(18) Iceland	DM 13.10
ST & C&G Pz Fd	\$1.07	(19) Czech Republic	DM 13.10
ST & C&G Pz Fd	\$1.07	(20) Slovakia	DM 13.10
ST & C&G Pz Fd	\$1.07	(21) Poland	DM 13.10
ST & C&G Pz Fd	\$1.07	(22) Hungary	DM 13.10
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ST & C&G Pz Fd	\$1.07	(24) Bulgaria	DM 13.10
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ST & C&G Pz Fd	\$1.07	(28) Macedonia	DM 13.10
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ST & C&G Pz Fd	\$1.07	(31) Hungary	DM 13.10
ST & C&G Pz Fd	\$1.07	(32) Poland	DM 13.10
ST & C&G Pz Fd	\$1.07	(33) Czech Republic	DM 13.10
ST & C&G Pz Fd	\$1.07	(34) Slovakia	DM 13.10
ST & C&G Pz Fd	\$1.07	(35) Poland	DM 13.10
ST & C&G Pz Fd	\$1.07	(36) Hungary	DM 13.10
ST & C&G Pz Fd	\$1.07	(37) Romania	DM 13.10
ST & C&G Pz Fd	\$1.07	(38) Bulgaria	DM 13.10
ST & C&G Pz Fd	\$1.07	(39) Albania	DM 13.10
ST & C&G Pz Fd	\$1.07	(40) Serbia	DM 13.10
ST & C&G Pz Fd	\$1.07	(41) Montenegro	DM 13.10
ST & C&G Pz Fd	\$1.07	(42) Macedonia	DM 13.10
ST & C&G Pz Fd	\$1.07	(43) Bulgaria	DM 13.10
ST & C&G Pz Fd	\$1.07	(44) Romania	DM 13.10
ST & C&G Pz Fd	\$1.07	(45) Hungary	DM 13.10
ST & C&G Pz Fd	\$1.07	(46) Poland	DM 13.10
ST & C&G Pz Fd	\$1.07	(47) Czech Republic	DM 13.10
ST & C&G Pz Fd	\$1.07	(48) Slovakia	DM 13.10
ST &			

Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

**WHART**

\_\_\_\_\_

\_\_\_\_\_

**IMCAG**

\_\_\_\_\_

\_\_\_\_\_

**BYBURG**


\_\_\_\_\_

\_\_\_\_\_

**DOSTIL**

\_\_\_\_\_

\_\_\_\_\_



T-7

**WHAT BATHING GIRLS  
MIGHT BE.**

Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

Answer: <sup>66</sup> IN  (Answers tomorrow)

Yesterday's Jumbles: SNORT AIDEO ERMINE BASKET  
 Answer: She was almost jilted at the altar—  
 A NEAR MISS

Imprimé par Offspring, 73 rue de l'Erangile, 75018 Paris

'THEY CALL IT A SCREEN DOOR...IT KEEPS THE BUGS OUT,  
BUT IT LETS THE SUMMER IN!'

## By Alan Truscott

**STATE** *uniqueness of*

The same thing can happen in a technical way at the bridge table: A player can make a discovery play, aimed at *finding the distribution* in one suit so he can solve his problem in another, and then be surprised by the result.

Consider, for example, the diagramed deal, from the 1981 Goldmann Pair Championship in New York. North-South did well to reach a reasonable six-spade contract in the face of vigorous bidding by the opposition. South's five-club bid showed slam interest, and North did well to cooperate by bidding five diamonds, showing some strength in that suit.

The heart ace was led against six spades, and South ruffed. Trumps were drawn in two rounds, with the ace and king, and the declarer had to face up to the problem of the club suit.

The normal play in clubs was to lead low to the jack in the closed hand, which works if East has both missing honors or a singleton or doubleton honor. But if West has a doubleton honor, the winning play is to lead low from the closed hand. Since the bidding had shown that West began with six hearts, it seemed quite likely that he would have the heart king.

South, before committing herself in clubs, decided to test the diamonds — a discovery play. The ace, king and queen were played and the diamonds

West was known to have begun with exactly two spades and exactly two diamonds, and probably six hearts. That meant a three-card club holding, so South made the normal play in clubs by leading to the jack. When the king fell later under the ace the slam was made.

Suppose that West had followed to three rounds of diamonds. It would then have been clear that West was short in clubs, so South would have ruffed a red card and led a low club, making the slam, presumably, when

However, a shrewd West would play low quickly with that combination, leaving South to consider the possibility that East had begun with K-Q-x.

NORTH  
 ♠ KJ5  
 ♥ J104  
 ♦ KQ43  
 ♣ 1062

WEST  
 ♠ 52

EAST  
 ♠ 1098763

♠ AQ8883  
 ♦ 86  
 ♣ Q84  
 ♠ 82  
 ♥ K752  
 ♦ J10975  
 ♣ K8  
 SOUTH (D)  
 ♠ AQ10974  
 ♥ —  
 ♦ —  
 ♣ —

Neither side was vulnerable. The bidding:

South	West	North	East
-------	------	-------	------

North	East	South	West
1♠	3♥	3♠	4♥
5♠	Pass	5♠	Pass
6♠	Pass	Pass	Pass

West led the heart ace.







